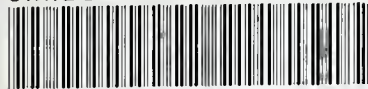


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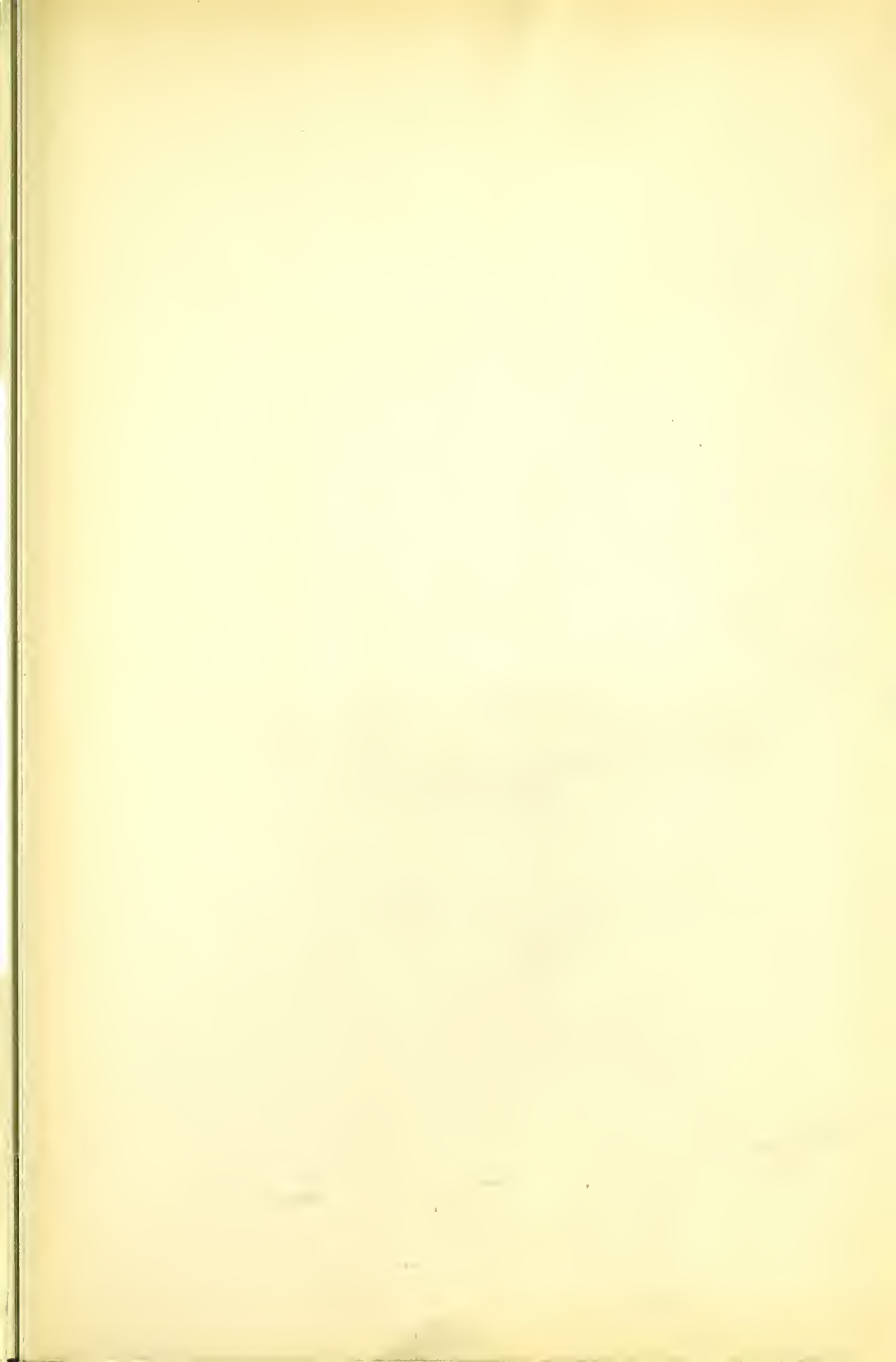


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REFERENCE



COLLECTIONS





THE ECONOMIC POLICY OF AUSTRIA-
HUNGARY DURING THE WAR
IN ITS EXTERNAL RELATIONS

ECONOMIC AND SOCIAL HISTORY
OF THE WORLD WAR

JAMES T. SHOTWELL, LL.D., *General Editor.*

TRANSLATED AND ABRIDGED SERIES

*For List of Editors, Publishers, and Plan of Series
see end of this volume.*

THE ECONOMIC
POLICY OF AUSTRIA-HUNGARY
DURING THE WAR
IN ITS EXTERNAL RELATIONS

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EDITOR'S PREFACE

IN the autumn of 1914, when the scientific study of the effects of war upon modern life passed suddenly from theory to history, the Division of Economics and History of the Carnegie Endowment for International Peace proposed to adjust the program of its researches to the new and altered problems which the War presented. The existing program, which had been prepared as the result of a conference of economists held at Berne in 1911, and which dealt with the facts then at hand, had just begun to show the quality of its contributions; but for many reasons it could no longer be followed out. A plan was therefore drawn up at the request of the Director of the Division, in which it was proposed, by means of a historical survey, to attempt to measure the economic cost of the War and the displacement which it was causing in the processes of civilization. Such an "Economic and Social History of the World War," it was felt, if undertaken by men of judicial temper and adequate training, might ultimately, by reason of its scientific obligations to truth, furnish data for the forming of sound public opinion, and thus contribute fundamentally toward the aims of an institution dedicated to the cause of international peace.

The need for such an analysis, conceived and executed in the spirit of historical research, was increasingly obvious as the War developed, releasing complex forces of national life not only for the vast process of destruction but also for the stimulation of new capacities for production. This new economic activity, which under normal conditions of peace might have been a gain to society, and the surprising capacity exhibited by the belligerent nations for enduring long and increasing loss—often while presenting the outward semblance of new prosperity—made necessary a reconsideration of the whole field of war economics. A double obligation was therefore placed upon the Division of Economics and History. It was obliged to concentrate its work upon the problem thus presented, and to study it as a whole; in other words, to apply to it the tests and disciplines of history. Just as the War itself was a single event, though penetrating by seemingly unconnected ways to the remotest parts of the world, so the analysis of it must be developed according to a plan at once all embracing and yet adjustable to the practical limits of the available data.

During the actual progress of the War, however, the execution of this plan for a scientific and objective study of war economics proved impossible in any large and authoritative way. Incidental studies and surveys of portions of the field could be made and were made under the direction of the Division, but it was impossible to undertake a general history for obvious reasons. In the first place, an authoritative statement of the resources of belligerents bore directly on the conduct of armies in the field. The result was to remove as far as possible from scrutiny those data of the economic life of the countries at war which would ordinarily, in time of peace, be readily available for investigation. In addition to this difficulty of consulting documents, collaborators competent to deal with them were for the most part called into national service in the belligerent countries and so were unavailable for research. The plan for a war history was therefore postponed until conditions should arise which would make possible not only access to essential documents but also the coöperation of economists, historians, and men of affairs in the nations chiefly concerned, whose joint work would not be misunderstood either in purpose or in content.

Upon the termination of the War, the Endowment once more took up the original plan, and it was found with but slight modification to be applicable to the situation. Work was begun in the summer and autumn of 1919. In the first place a final conference of the Advisory Board of Economists of the Division of Economics and History was held in Paris, which limited itself to planning a series of short preliminary surveys of special fields. Since, however, the purely preliminary character of such studies was further emphasized by the fact that they were directed more especially towards those problems which were then fronting Europe as questions of urgency, it was considered best not to treat them as part of the general survey but rather as of contemporary value in the period of war settlement. It was clear that not only could no general program be laid down *a priori* by this conference as a whole, but that a new and more highly specialized research organization than that already existing would be needed to undertake the "Economic and Social History of the World War," one based more upon national grounds in the first instance, and less upon purely international coöperation. Until the facts of national history could be ascertained, it would be impossible to proceed with comparative analysis; and the different national histories

were themselves of almost baffling intricacy and variety. Consequently the former European Committee of Research was dissolved, and in its place it was decided to erect an Editorial Board in each of the larger countries and to nominate special editors in the smaller ones, who should concentrate, for the present at least, upon their own economic and social war history.

The nomination of these boards by the General Editor was the first step taken in every country where the work has begun. And if any justification was needed for the plan of the Endowment, it at once may be found in the lists of those, distinguished in scholarship or in public affairs, who have accepted the responsibility of editorship. This responsibility is by no means light, involving as it does the adaptation of the general editorial plan to the varying demands of national circumstances or methods of work; and the measure of success attained is due to the generous and earnest coöperation of those in charge in each country.

Once the editorial organization was established there could be little doubt as to the first step which should be taken in each instance towards the actual preparation of the history. Without documents there can be no history. The essential records of the War, local as well as central, have therefore to be preserved and to be made available for research in so far as is compatible with public interest. But this archival task is a very great one, belonging of right to the governments and other owners of historical sources and not to the historian or economist who proposes to use them. It is an obligation of ownership; for all such documents are public trust. The collaborators on this section of the war history, therefore, working within their own field as researchers, could only survey the situation as they found it and report their findings in the form of guides or manuals; and perhaps, by stimulating a comparison of methods, help to further the adoption of those found to be most practical. In every country, therefore, this was the point of departure for actual work; although special monographs have not been written in every instance.

The first stage of the work upon the war history, dealing with little more than the externals of archives, seemed for a while to exhaust the possibilities of research, and had the plan of the history been limited to research based upon official document, little more could have been done, for once documents have been labelled "secret" few government officials can be found with sufficient courage or initiative to break

open the seal. Thus vast masses of source material essential for the historian were effectively placed beyond his reach, although much of it was quite harmless from any point of view. While war conditions thus continued to hamper research, and were likely to do so for many years to come, some alternative had to be found.

Fortunately such an alternative was at hand in the narrative, amply supported by documentary evidence, of those who had played some part in the conduct of affairs during the War, or who, as close observers in privileged positions, were able to record from first- or at least second-hand knowledge the economic history of different phases of the Great War, and of its effect upon society. Thus a series of monographs was planned consisting for the most part of unofficial yet authoritative statements, descriptive or historical, which may best be described as about halfway between memoirs and blue-books. These monographs make up the main body of the work assigned so far. They are not limited to contemporary war-time studies; for the economic history of the war must deal with a longer period than that of the actual fighting. It must cover the years of "deflation" as well, at least sufficiently to secure some fairer measure of the economic displacement than is possible in purely contemporary judgments.

With this phase of the work, the editorial problems assumed a new aspect. The series of monographs had to be planned primarily with regard to the availability of contributors, rather than of source material as in the case of most histories; for the contributors themselves controlled the sources. This in turn involved a new attitude towards those two ideals which historians have sought to emphasize: consistency and objectivity. In order to bring out the chief contribution of each writer it was impossible to keep within narrowly logical outlines; facts would have to be repeated in different settings and seen from different angles, and sections included which do not lie within the strict limits of history; and absolute objectivity could not be obtained in every part. Under the stress of controversy or apology, partial views would here and there find their expression. But these views are in some instances an intrinsic part of the history itself, contemporary measurements of facts as significant as the facts with which they deal. Moreover, the work as a whole is planned to furnish its own corrective; and where it does not, others will.

In addition to the monographic treatment of source material, a number of studies by specialists is already in preparation, dealing

with technical or limited subjects, historical or statistical. These monographs also partake to some extent of the nature of first-hand material, registering as they do the data of history close enough to the source to permit verification in ways impossible later. But they also belong to that constructive process by which history passes from analysis to synthesis. The process is a long and difficult one, however, and work upon it has only just begun. To quote an apt characterization, in the first stages of a history like this one is only "picking cotton." The tangled threads of events have still to be woven into the pattern of history; and for this creative and constructive work different plans and organizations may be needed.

In a work which is the product of so complex and varied coöperation as this, it is impossible to indicate in any but a most general way the apportionment of responsibility of editors and authors for the contents of the different monographs. For the plan of the History as a whole and its effective execution the General Editor is responsible; but the arrangement of the detailed programs of study has been largely the work of the different Editorial Boards and divisional Editors, who have also read the manuscripts prepared under their direction. The acceptance of a monograph in this series, however, does not commit the editors to the opinions or conclusions of the authors. Like other editors, they are asked to vouch for the scientific merit, the appropriateness and usefulness of the volumes admitted to the series; but the authors are naturally free to make their individual contributions in their own way. In like manner the publication of the monographs does not commit the Endowment to agreement with any specific conclusions which may be expressed therein. The responsibility of the Endowment is to History itself—an obligation not to avoid but to secure and preserve variant narratives and points of view, in so far as they are essential for the understanding of the War as a whole.

* * * * *

For the most part, the text of the volumes of the various national series has been prepared in the language of the country concerned; and, as will be seen by reference to the Outline of Plan at the end of this volume, these texts with but few exceptions are published in their original languages. The most notable variation from this rule has been in the case of the Russian Series, which, for the present at

least, will be published only in English translation. In addition, however, to these original texts, a limited number of volumes of the European continental series are published by the American publishers in abridged and slightly modified translation. This Translated and Abridged Series has been prepared solely with regard to its possible usefulness for those who do not readily use the originals. It is therefore necessarily limited to volumes dealing with the more general subjects, such as the effect of the War upon the agriculture or manufactures of a country, and excludes the more special topics, like the treatment of individual industries, which would interest few except those who already know the language of the original study. This rule has been departed from in some instances in order to present to American or English readers data of peculiar interest which nevertheless come from a restricted field. The application of this criterion of usefulness naturally leaves the Translated and Abridged Series somewhat lacking in symmetry, in view of the fact that the British Series and others (like the Russian and Japanese) originally appearing in English, are already available, without further editorial modification or abridgment. Moreover, it should be noted that the more general monographs selected for translation are themselves the result of independent original research and are not dependent for their data upon the accompanying special studies prepared for more technical readers. This method of work, forced upon the authors by the exigencies of the scientific method, has sometimes led to seemingly different conclusions. But a careful examination of these apparent discrepancies will show that the ultimate synthesis is merely enriched by the consideration of variant aspects of a problem so vast and so elusive that no one statement, especially if cast in statistical form, is adequate even to describe its terms.

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The present volume deals with a phase of the economic history of the Central Powers, which, had those Powers been victorious in the War, would have been of vital importance for the history of the whole world. The realization of the dream of a Middle Europe is recorded here, as it finally came into being—on paper—a month before the final defeat of all such plans. Few chapters of European history are so dramatic as this. Yet so complete was the overthrow that

this narrative is the only one yet published dealing with the whole series of negotiations in which the structure of Middle Europe took shape. Even the governments involved did not survive long enough to receive the reports of their representatives, and it is a happy chance that the documents embodied in the German text of this volume should be interpreted by two of the leading negotiators, who were themselves responsible in no small degree for the course of events and the discovery of those elusive formulae which finally enabled the conference to reach an agreement. It is also fortunate, though not by mere chance, that the formulae in question are still of value in the solution of a more intensive tariff problem in the very part of Europe with which these arrangements dealt. The delicate but necessary adjustments to encourage trade across frontiers of States jealous of their sovereign rights, is perhaps the chief international problem of post-war continental Europe. The present volume offers some realistic considerations for those who are face to face with the stern facts of economic necessity and national sentiment.

The English version of this work is not a literal or complete translation of the German original, the full text of which is published in this series. An effort has been made to simplify the style for the benefit of English readers, and a good deal has been omitted as of little interest to them. Of such omissions may be mentioned the text of the Commercial Treaty between Austria and Hungary, forming part of the last *Ausgleich*, and the classified list of wares attached to the Customs Treaty between Germany and Austria-Hungary. In a few cases only a *précis* is given of despatches and other documents published in full in the original; but, in general, it has been thought better to translate such documents in full.

In following this principle great care has been taken not in any way to alter the meaning of the text or to misrepresent the views of the authors, whether by omission or otherwise.

It should be added that the present volume contains a short chapter on the results of the occupation of the Ukraine which was not included in the German text, owing to the fact that a thorough treatment of this subject is given in a parallel volume of the Austrian-Hungarian Series. There are other variations from the German text, especially the omission of a chapter of theoretic discussion.

J. T. S.

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INTRODUCTION TO THE ENGLISH TRANSLATION

THERE may nowadays be a legitimate difference of opinion as to the truth of the adage *si vis pacem para bellum*; there can be none as to the need for those who ensue peace to know the root causes of war. The following pages are full of instruction in this respect; they are also full of instruction, both by way of warning and example, in the art of making peace. In a work dealing with economic policy it is naturally the economic aspects of the World War, as a portentous phase in the general struggle for existence, that are brought into prominence. In these long and complicated negotiations—between Austria-Hungary and Germany, between Austria and Hungary, between the Central Powers and the Bolsheviki, between the Central Powers and Rumania—what we are apt to regard as the loftier international ideals find little place. The talk, as between friends, is of tariffs: as between enemies, it is of rectifications of frontier and concessions, as well as of tariffs. The record of dignified representatives of the old diplomacy solemnly discussing the quota of pigs to be admitted from one country into another is in itself illuminating.

The nations, in short, appear in these pages stripped of their romantic trappings; they appear as what essentially they are, that is to say, large groups of people bound together by a keen sense of their separate interests, and protecting themselves, to the best of their ability, against the competition of other, similar groups. The problem of peace, as is now well understood, is that of strengthening among the nations the sense of the interests they have in common. It is not a problem easy to solve, as the negotiations here recorded abundantly prove. The creation of an economic “Central Europe,” to which these negotiations were largely directed, might possibly have solved it so far as the relations of certain nations to each other were concerned; but, essentially, it would have meant no more than the formation of a new, larger, and more powerful group, organized for defense against similar groups elsewhere. The area of free trade on the continent of Europe would have been widened; but universal free trade, which is the real *sine qua non* of lasting peace, would have been as far off as ever.

The main historical interest of the economic policy of Austria-Hungary during the War lies precisely in its connection with this idea of a Central Europe bound together, as against the world outside, economically if not politically. This idea, as is pointed out in the following pages, had been warmly advocated before the War by many thinkers and men of affairs both in Germany and Austria-Hungary. The War gave it a powerful impetus. The eminent German economist Franz von Liszt published in 1914 a brochure in which he gave it a new expansion, and advocated, in the event of the ultimate victory of the Central Powers, the establishment of a "Middle-European League of States" which should include not only Central Europe but all Continental countries "from the Arctic Ocean to the shores of the Mediterranean," with the exception of Russia, France, and Spain. The eminent Austrian economist Eugen von Philippovich followed this up in 1915, at Dr. von Liszt's invitations, with a contribution to the same serial publication (*Zwischen Krieg und Frieden*) in which, after an elaborate examination of the problems involved, he advocated an economic union between Austria-Hungary and Germany as the condition precedent to the creation of a wider league. The greatest and most widespread influence, however, was exercised by Friedrich Naumann, whose *Mitteleuropa* also appeared in 1915. This book, with its brilliant and original style and its mingling of practical realism with patriotic and religious idealism, was eminently calculated to appeal to the German popular intelligence. Its success was immense and immediate; it circulated in many thousands and, translated into several languages, it first revealed the portentous vision of Central Europe to the outside world.

Naumann conceived Central Europe as a more or less circumscribed League of Nations, presided over by the two Emperors in common: a sort of super-State, in which the nationalities were to have reasonably free play, though German was to be its official language and German influence in it was to be supreme. For him an economic union was not enough, since even a Customs Union had not prevented war between its members. Yet an economic foundation must be given to the new political structure, since "all the world over political power signifies also economic interests and money." As a beginning, then, Germany and Austria-Hungary must come to an economic understanding. At present there was competition between them—"competition between brothers, which is best settled by both

taking a share in the business." Out of such an economic union, consecrated by the new brotherhood in arms, Central Europe would develop, as once the German Empire had developed, as "a new and greater State association."

It was not to the outside world alone, however, that this vision was disconcerting. Germans and Austro-Hungarians could, indeed, unite readily enough in desiring an economic *rapprochement*, though they differed as to its manner and degree. This Central European super-State was another matter. The Austrian German, easy-going, but proud of his traditions, had little stomach for the position of junior partner in a firm of which his masterful younger brother the Prussian would assuredly be principal. The Prussian had little use for an organization in which his supremacy would not be undisputed. "The future of a Central Europe," said the *Rheinisch Westfälische Zeitung*, "will find its best guarantee in a Prussia-Germany emerging from the War so strong, that it will occupy a dominating position in Central Europe, and the others will have of their own accord to seek our alliance." This spirit and the Austrian reaction to it are plentifully illustrated in the pages of this book.

The book is, in a sense, monumental. It is the monument of an ideal which perished, with so much else, in the Great War. The ideal had, indeed, become incarnate during the War; and here is the record of its birth-throes. It came to birth; but it was still-born. It lies buried "under the ruins." Yet this is not to say that it has lost all interest for living men. We may or may not believe the legend *Resurgam* which some would write upon its tomb; but already there are signs of some such rebirth among the States that have arisen on the ruins of the Hapsburg Monarchy. Indeed, it may be said that one outcome of the War has been to create conditions which have accentuated the cry for economic union, since they have exaggerated the evils of economic disunion. The movement among the Succession States towards such union is even now being encouraged by the Powers of the Entente; and it is noteworthy that, in doing so, these Powers would, by waiving their right to most-favored-nation treatment under the treaties, remove the most serious obstacle to an economic alliance, based on reciprocal preference, between two sovereign and independent States. This was the difficulty which the Central Powers also had to face in forming their "large economic area." This illustrates the value of the history of the negotiations

here recorded. They were long, and difficult, and contentious; but, so far as the economic alliance between Germany and Austria-Hungary is concerned, they were successful, if only on paper. The authors are right in claiming that they contain valuable lessons for those who, all the world over, are striving to solve very similar problems.

They are less convincing when they seek to contrast the generosity of the attitude of the Central Powers towards their defeated foes with the spirit displayed in the Treaty of Versailles. Few will now deny that there is much to criticize in this treaty, both as regards its spirit and its provisions; but to read into its terms a deliberate intention to put the vanquished under a permanent economic or political tutelage, is to mistake its meaning. It is perhaps natural, if not inevitable, that the authors should draw a contrast between the negotiations in which they shared at Brest-Litovsk and those which issued in the Treaty of Versailles. The Bolsheviks, they say, would have signed anything demanded of them; yet the terms of the treaties signed at Brest-Litovsk were entirely reciprocal, thus proving that no aggressive policy underlay the project for an economic alliance of Central Europe. There was no claim, such as that later enforced by the Entente, to control the harbors, the railways, and the sources of production of the defeated nations; there was no demand for the surrender of their merchant fleets or for any tribute of raw materials. This argument—as the authors themselves admit—is weakened by the terms imposed upon Rumania by the Treaty of Bukharest, which would certainly have placed that country under the tutelage of the Central Powers, had the War ended otherwise than it did. The truth is, that at Brest-Litovsk the Central Powers, and especially Austria-Hungary, had urgent need of peace with Russia and the Ukraine, and equally urgent need to conciliate them as far as possible, in order to achieve their main object, which was to obtain supplies from the “bursting grain-bins” of Russia. Who can say what their action would have been had they known that no such supplies would be forthcoming? As it was, the Prussian military representatives at Brest-Litovsk—according to this account—seem to have taken up anything but a conciliatory attitude, and, treaty or no treaty, they ultimately exercised, both in Rumania and the Ukraine, a control which, though not very effective, was not much hampered by scruple as to the use of force in due season. In view

of the criticisms made in this book, it is necessary to point out that the provisions of the Treaty of Versailles to which objection is taken were not in the nature of reprisals, but of reparations.

"The War," said Naumann, "has given to Central Europe a common soul." Yet nothing is more apparent in these negotiations than that in the body of the alliance there were two souls, as distinct as the two souls of Faust. On the one side is Prussia-Germany, confidently building up the vast superstructure of her plans of domination even while its foundations are visibly crumbling; on the other side is Austria, still the "timid Power" described by Castlereagh a hundred years earlier, cherishing no illusions, and anxious only to make the world safe for the Monarchy. The association and interplay of these distinct types of character give to this mainly dry record of diplomatic negotiations a certain dramatic quality, which is increased by the intrusion of yet a third type, utterly unlike either—the Bolshevik. No trace of the chancery style is left when the authors come to describe the conferences at Brest-Litovsk—the first meeting over the council table of the representatives of two utterly irreconcilable views of life. Here indeed is drama. The scene is a barracks, near a town so desolated by war that in it no habitable house remains. The chief actors are Kühlmann, the typical Prussian diplomatist, Hoffmann, the typical Prussian soldier, Trotsky, the typical Russian-Jewish Bolshevik, and Czernin, not so typical perhaps, but certainly of all the figures the most tragic, since he alone was throughout conscious of the inevitable end.

There is, too, something dramatic in the way in which both in Germany and Austria-Hungary the official machine continued to work unperturbed, while the whole structure of the State was tumbling to ruin, building plans for a future which was not to be. As early as June 1917 the last hope of the Central Powers, slowly being strangled to death by the blockade, seemed to be dashed when Kornilov's push into Galicia threatened them with the loss of the oil-fields, and so with the ruin of the submarine campaign. From this danger they were saved by force of propaganda rather than of arms, and presently the Bolshevik revolution gave them a new hope. The records here given show how this hope was belied; for the stipulated supplies from the Ukraine were never delivered, and the official despatches, at least from Austria-Hungary, are cries of agony. Yet the negotiations continue, for the creation of the nucleus of Central

Europe, for the harnessing of Rumania, and for the settlement of the Polish Question. The great break-through on the Western front in March 1918, gave a fresh hope of victory, soon to be dashed. Yet, even after the crushing counter-blow of the Entente in August, the negotiations for the economic alliance between Germany and Austria-Hungary continued. They ended with the completed scheme on the 11th October, exactly a month before the Armistice. The negotiators had at least the satisfaction of having solved, on paper, a very knotty problem.

There were those, notably in Austria-Hungary, who saw the futility of much of this diplomatic labor, since its ultimate success depended on the complete victory of the Central Powers, the chance of which grew every day more remote. This was notably the case with the young Emperor Charles. The figure of this last ruler of the great House of Hapsburg is a tragic one. His occasional appearances in these pages show him to have been well meaning and sensible. His efforts to secure an agreed peace are already well known. Less known are the instances here given of his resistance to the German plans of political and economic domination. For him the long-drawn-out negotiations on the Polish Question were "an idle game," since the whole matter would have to be reopened with the Entente Powers at the Peace Conference. He impressed upon his Ministers the necessity for obtaining tolerable terms for Rumania, since it was essential that Austria-Hungary should be on friendly terms with her after the War; and it was his personal intervention which prevented the Germans from deposing the Rumanian dynasty as punishment for treason to the House of Hohenzollern. In general, his attitude—as opposed to that of Germany—was that the all-important thing was to restore the world as quickly as possible to habits of peaceful and friendly intercourse.

The general impression left by reading this account of Austro-Hungarian foreign policy during the War is that, in so far as it was not in German leading-strings, it was directed not to any eventual domination so much as to the conservation of the economic and political interests of the traditional Monarchy. The economic alliance with Germany was conceived as serving these interests, at least within the limits ultimately defined, and it was with this alliance in view that all the other negotiations were entered upon. The detailed account of these negotiations, and especially those for the renewal of the Com-

promise (*Ausgleich*) between Austria and Hungary, give a vivid impression of the economic conditions of Central Europe in general, and of the special and all but insoluble problems, both political and economic, with which the Dual Monarchy was faced. The impression left, indeed, is that even had there been no war the Monarchy must soon have collapsed. We may regret its fall; for it is possible still to hold, with Palmerston, that if an "Austria" did not exist, it would be necessary to create one; and the menace of the Slav, against which the East Mark was erected as a barrier in the days of Charlemagne and Otto the Great, is certainly not less than it was in Palmerston's day. Yet the Monarchy, whatever its uses, was an anachronism. It was the last of the great, purely territorial sovereignties, patched together in the course of ages by a series of happy chances. It continued to exist, as it were, by force of habit, in spite of the conflicts of the nationalities over which it ruled, and which it was its main business to keep within bounds. Sooner or later the effort to do so would have proved vain. "No man," said Parnell, "has the right to fix the boundary to the march of a nation." The Emperor Charles put the matter in a form less disputable, since it avoids all assertion of right. "A people nowadays," he said, "will not allow itself to be hindered by force in its national expansion. Pressure begets counter-pressure." That puts in a nutshell the main problem to be solved if peace is to be permanently maintained.

W. ALISON PHILLIPS.



PART I

THE ECONOMIC ALLIANCE WITH GERMANY

CHAPTER I

THE HISTORICAL BACKGROUND

Austria and the German Customs Union.

DURING the World War negotiations were conducted between the German Empire and the Austro-Hungarian Monarchy with a view to the creation of a great, self-contained Central European economic area. These negotiations have a twofold interest, political and economic. In the first place, they throw light on the aims pursued during the War by the two great Central Powers, which included that closer economic union between them which, had the War had a different ending, would have profoundly influenced the economic development of Europe. In the second place, they represent a new economic experiment, namely, the attempt to unite two Empires in an organization more or less uniform, while preserving their internal economic autonomy and even a certain amount of tariff protection against each other. The attempt was indeed successful only in principle; for with the collapse of the Central Powers these laboriously constructed plans also collapsed. Yet these negotiations, and their outcome in the various agreements arrived at, have a practical interest in view of the fact that similar plans for the formation of Customs Unions have been mooted, not only among the new States which the War has brought into being, but in other parts of the world also—so far with no practical results.

The significance of these efforts to create a "Central Europe" can best be seen by setting them against their historical background. A century before the outbreak of the World War, Central Europe had been split up into a number of small customs areas. In 1815, the Federal Act of the Congress of Vienna gave to each State of the new German Confederation the right to set up tariff barriers on its frontiers, and each State availed itself of the right. The inconvenience of this was, however, early felt, and by the beginning of 1834 the States of the Confederation had, with one or two exceptions, combined in a single Customs Union.¹

¹ For the *Zollverein* see Percy W. L. Ashley, *Modern Tariff History* (1904, 2nd ed., 1910). A selected list of German and French works will be found in the German original of this book. W. A. P.

The most notable of the exceptions was Austria.² It was not till 1850 that Freiherr von Bruck, the Austrian Minister of Commerce, proposed for the first time that the Austrian Empire (which then included Hungary) should join the German Customs Union. He was a man of wide views, and his memoranda of 30th December 1849, and 30th May 1850, gave the first impulse to all those efforts to create a great Central European Customs Union which culminated, during the World War, in the negotiations for the formation of an Austro-Hungarian and German economic alliance. These earlier efforts were vigorously opposed by Prussia, as imperiling the hegemony in Germany at which she was aiming, and she succeeded by an astute diplomacy in keeping Austria out of the German Customs Union, until the result of the war of 1866 decided this issue also. Finally, with the formation of the German Empire, the question seemed to lose all practical interest, since under the Constitution of the *Reich*, issued on 16th April 1871, the customs were declared to be an imperial concern.

The Idea of a Customs Union before the War.

The question of an Austro-Hungarian and German Customs Union, however, continued to be discussed, especially after the conclusion in 1879 of the Triple Alliance; but, owing to the negative attitude of Bismarck, these discussions led to nothing. A fresh impulse was given to them in the middle of the 'eighties by the pressure of oversea competition in agricultural produce, which led the Agrarians to think about securing a large enough protected market for their own. In 1885 an international congress of agriculturists at Budapest, at which representatives of German agriculture were present, passed a resolution in favor of a Central European system of treaties based on the idea of "an effective protective tariff against the countries outside, and the furtherance of free trade between the countries inside the Alliance."

The moment seemed opportune for the realization of the old idea. All that was done, however, was the conclusion on 6th December 1891, of the so-called Caprivi Treaties. The significance of

² In Austria itself the customs barriers between the various crown lands had been abolished as early as 1775; but Hungary still had its own customs frontier, all efforts to do away with it having broken down on Austrian opposition. It was not till 1850 that this frontier was abolished.

these was much exaggerated. There was talk of a "tariff-political union of Central Europe," of a great economic empire of which these commercial treaties had laid the foundations. All that had really happened was that certain ordinary commercial treaties had been signed, and that Germany had coöperated with Austria-Hungary in those concluded with Italy, Switzerland, and Belgium.

These treaties, indeed, were prevented from having any revolutionary effect on commercial policy owing to the fact that, while they were in force, economic conditions underwent a considerable change. Owing to the increase in home consumption, the Agrarians in Austria and Hungary lost all interest in the idea of a Customs Union with Germany. The Agrarians in Germany turned against the idea through fear of Hungarian competition, which—though not serious for the moment³—threatened to become so with the more effective exploitation of the vast agricultural resources of the country. As for the industrialists, in 1899 those of Austria-Hungary declared against a customs union at a general meeting of their Central Alliance, while in Germany the proceedings at the general meeting in 1900 of the League of Industrialists, though they showed that there was a strong body of opinion in favor of an economic union of the two Empires, showed also the existence, especially among the government representatives, of such serious misgivings that the whole question had to be postponed.

The idea, however, continued to be discussed and, during the first decade of the present century, organized efforts were made to pave the way to its realization. To this end were founded at this time the three Central European Economic Clubs (*Wirtschaftsvereine*), of which many eminent economists and men of affairs were members, and these were eventually joined by the German-Austrian-Hungarian Economic Association (*Wirtschaftsverbände*) founded during the War for the purpose of popularizing the idea.

All these activities were inspired by the wish to create an economic area extensive enough and sufficiently well organized to safeguard its interests in face of the vast, uniform economic areas of Great Britain and her colonies, of the United States of America, and of Russia. There were many who hoped that the gradual absorption of the smaller Customs areas into the greater, and of these again into

³ It was noticeable only in the case of barley, wine, and to a certain extent of cattle.

yet more comprehensive Unions, would lead in time to a new era of Free Trade.

Movement during the War for an Economic Union.

The idea of forming more intimate economic ties between the Austro-Hungarian Monarchy and Germany received a mighty impetus during the Great War, and from the spring of 1915 onwards it was the theme of innumerable pamphlets, books,⁴ lectures, and conferences, which only ended with the end of the War itself. When, in November 1915, the Government also took up the idea, this was largely due to the pressure of public opinion.

The inspiration of the idea was partly political, partly economic. It was feared that if no such idea were adopted, the intimate alliance between the two Empires, which the War had cemented, might easily be shaken, if not destroyed, by economic differences between them, and against this danger a tariff union seemed the best, if not the only defense. To this main political consideration others were added. It was, for instance, essential for Austria that her relations with the Balkan States should be improved after the War, and this could not be done so long as Hungary insisted on prohibiting the free importation of their live-stock; only by opening the great German market to the Hungarian cattle trade could this obstacle be removed. The Polish Question, too, carried weight in the matter. Whether Poland were erected into an independent State, or attached to Germany or Austria, it was agreed that she should be connected by intimate ties with both Central Powers, and this involved more intimate ties between the Central Powers themselves. The Austro-Polish solution, for instance, which would have united Austria-Hungary and Poland in a single customs area, was subject to the condition that German trade should enjoy equal rights with that of the Monarchy in the Polish market. This would have meant free trade between Germany and Poland and also, since there would have been no customs frontier between Poland and Austria-Hungary, free importation of German goods into Austria-Hungary. In this event, then, a tariff union, or some arrangement *ad hoc*, between the two Empires would be essential.

⁴ The most popular of these was Friedrich Naumann's *Mitteleuropa*. An English translation of this by C. M. Meredith, with an introduction by W. J. Ashley, was published in 1916 under the title *Central Europe*.

From the political point of view, the idea was supported in Austria mainly by the German parties, who desired closer ties with Germany in order to strengthen their position against the other nationalities. Even among the Germans of Austria-Hungary there was, however, a fear that in such an alliance the German Empire, as the stronger, would assume the leadership, and this fear was naturally shared by the other nationalities, especially the Czechs and the Southern Slavs. In Germany—apart from a certain fear of increasing the already serious power of the Catholics—there were no such internal causes of opposition. On the other hand, it was pointed out that only 12 per cent of German exports went to the Danube Monarchy; that an economic alliance with the Monarchy would hamper Germany in her trade relations with other Powers; that these Powers might see in the terms of this alliance a violation of the right to most-favored-nation treatment conceded to them by existing treaties; and that the consequent damage to German interests would far outweigh any benefit to be derived from drawing closer the economic ties with Austria-Hungary. It was pointed out, moreover, that any negotiations carried on during the War for such a purpose must needs be hypothetical, since after the War, whatever its outcome might be, economic conditions would everywhere be completely changed. Against this was set the political expediency of assuring the German people of at least some value to be received in return for the horrors and privations of the War. Save in this matter of the Austro-Hungarian economic alliance, there seemed no prospect, even in the event of ultimate victory, of securing abroad any adequate compensation for the sacrifices made. The increase of the market for German goods in Austria and the widening of the basis of German production would be at least some compensation.

In the debates on the subject, however, it was not political, but economic arguments that played the most important part. The various views may be summarized as follows. The Agrarians of Germany had to a certain extent been reconciled to the idea of the economic union by the fact that Austria-Hungary had practically ceased to export agricultural produce; they were, however, not enthusiastic, and they insisted on the protection against Austro-Hungarian competition of certain products, such as meal, barley, and wine. The Agrarians of Austria-Hungary were more amenable, but not much interested; for them the increase of home consumption

was the most important thing, and this they believed would only happen if the new Customs Union were to protect Austro-Hungarian industry against the perils which threatened it. Industry in Germany was on the whole favorable to the idea of the Customs Union; it was, however, opposed by those industrialists who depended on export to the western countries and overseas and, for the reasons already mentioned, feared complications with these countries. In Austria the opinion of industrialists was also divided. Some, fearing German competition, described the proposed Union as "industrial suicide"; others supported it, as promising to provide that wider market necessary if Austrian industry was to attain the high degree of specialization which was regarded as the main advantage of that of Germany. As for the Hungarian industrialists, their attitude was cool, and with few exceptions—*e.g.*, the millers—they took no part in the agitation. The commercial classes, owing to their free trade tendencies, favored the Union, and so did the class of consumers.

To all this were added differences of opinion among those who favored the economic *rapprochement* as to what form it should take. Some favored a complete Customs Union, others a system of preferential treatment similar to that obtaining in the British Empire.

This mass of contradictory ideas and interests forms the background to the negotiations conducted with a view to drawing closer the economic relations between the two great Central European Powers. The problem was to discover a compromise which should benefit all and involve intolerable sacrifices for none. Clearly, it was no easy one. Its solution, though this led to no practical result, has a useful lesson for those who may have to face similar problems in the future.

CHAPTER II

BEGINNINGS OF THE OFFICIAL NEGOTIATIONS

The Promemoria of the German Government, 1915.

ON 13th November 1915, the German Foreign Office addressed to the Austro-Hungarian Ministry of Foreign Affairs a confidential memorandum suggesting the idea of an economic amalgamation of the two Empires with a view to the extension of their political alliance. The greater part of the note is devoted to the question of economic union, political and military questions being subordinated.

The difficulties in the way of such an economic union, which confronted the negotiators to the last, are apparent in this first official proposal. The fundamental condition of the creation of a great protected economic area, uniform not only in its external but also in its internal relations, was the doing away of the tariff barriers between Germany and Austria-Hungary. The aim put forward in the *Promemoria* is the amalgamation of the two Empires into an economic unity; provisionally, however, it proposed only a Customs Alliance based on mutual preference. In order to compensate German trade for the risks incurred in such an arrangement, the tariffs of the two Empires were to be made as far as possible uniform, "in the direction of a reduction of duties." The treaty establishing the Customs Alliance was to be in force for thirty years, but was to be subject to revision every ten years. At each of these periodical revisions "the tendency to a reduction of duties" was to be maintained. The desire was expressed for the coöperation of the two Empires in their trade policy as regards States outside the Alliance. The note further pointed out that the conclusion of such an Alliance must depend on certain presuppositions, of which the most important was an improvement in the conditions of German export to Austria-Hungary, which was being injured by various economic war-regulations. In return for such improvement more favorable conditions would be conceded to Austro-Hungarian exports to Germany.

The German Government, moreover, laid down as an essential condition of the conclusion of the Customs Alliance that it should be possible to introduce into the Peace Treaty a clause under which most-favored-nation treatment, which both Empires intended to

concede to their enemies, should have no application to the concessions made to each other by Germany and Austria-Hungary. Finally, the German Government held it to be necessary to permit other States to join the Alliance. To confine this to Germany and Austria-Hungary would, as the *Promemoria* points out, have facilitated the solution of problems arising out of the most-favored-nation principle; on the other hand, were the principle of excluding other States to be upheld, this would lessen the value of the organization as a market for exports.

The memorandum then goes into certain details, intended to define more accurately the limits of the proposed Alliance. There is to be no raising of the level of existing duties. It is to be possible to exclude certain wares from the preference, and the Governments are to agree as quickly as possible as to what wares are to be thus excluded. The Governments were also to enter into communication with each other with regard to the goods on which either party desired from the other a diminution of the duties under the existing treaties. Since, in general, the Austro-Hungarian tariffs were higher than the German, it was proposed that Austria-Hungary should eventually be compensated for any sacrifices she might make in lowering her tariffs by the renunciation by Germany of her claims to Russian Poland. Within the Alliance most-favored-nation treatment was to be fully in force. In the event of economically harmful measures being adopted by States outside, both parties were to come to an agreement as to a policy to be pursued in common.

In the matter of railway communications, the German memorandum suggested that the two Empires should give each other mutual assistance in the matter of traffic to and from Russia, the Balkans, and the Orient, forwarding rates for goods to be permanently fixed by agreement between the two Governments and on the lowest possible scale. In order to increase the efficiency of the routes to the Balkans it was suggested that a union should be formed between the German, Austrian, Hungarian, and Bulgarian railways. Security was to be given for the permanent upholding of the provisions of the treaty as to the similar treatment in the matter of rates of similar wares passing over similar lengths of line. As to waterways, it was suggested that the treaty should provide for the free navigation of the Elbe and Danube inside each Empire, between the two Empires, and in passing through to a third State.

Suggestions were made for the improvement of these waterways, especially at the Iron Gates. Navigation dues were still to be levied, but the proceeds were to be devoted to the improvements.

The Reply of Austria-Hungary.

The Austro-Hungarian reply to the *Promemoria* is shorter and more reserved. It begins by declaring the readiness of the Government to negotiate with a view to the widening of the Treaty of Alliance, and goes on to describe the "economic *rapprochement*" as an end worth aiming at. The German proposals are accepted as the basis of negotiations which will show how far the idea of such an economic *rapprochement*, if strong enough to be effective, is consistent with the sovereignty and politico-commercial freedom of action of the two States respectively. It is agreed that the negotiations shall be on the basis of the principle of mutual preference. The long period of thirty years suggested by the German memorandum for the remaining in force of the treaty could not be accepted except as the result of careful examination. Apprehension is expressed as to the effect on enemy and neutral States of the conclusion of agreements between the two Empires so far transcending the provisions of ordinary commercial treaties, and it is suggested that a way of meeting their objections must be concerted. One of the aims of the economic *rapprochement* must be the improvement of the conditions governing exports from Austria-Hungary to Germany. Austria-Hungary is wholly in favor of allowing other States to join the Alliance. So far as the German proposal for the exchange of lists of exceptions and demands is concerned, these must be determined by economic necessities as they arise. Austria-Hungary, at this stage, refuses to mix up the Polish Question with that of drawing closer the economic relations between the two Empires.

In this first exchange of notes the difference of point of view between Germany and Austria-Hungary is already clearly recognizable. Germany laid most stress on political considerations, Austria-Hungary took her stand on purely economic considerations. On the German side the object of the negotiations is represented as a Customs Alliance, as a preparation for the amalgamation of the two Empires into a uniform economic area; on the Austrian side there is nothing but the cautious expression of an economic *rapprochement* between the two Empires. By the Germans the ground plans of

the new economic relation were clearly marked out; in Austria-Hungary everything was made to depend on the outcome of the discussion of details. The German Government showed a certain anxiety lest the higher Austro-Hungarian customs duties should be forced upon Germany, and generally lest her freedom of action in commercial policy should be hampered. The Austro-Hungarian Government felt misgivings as to the effect on the sovereignty and independence of Austria and Hungary of economic coöperation with the economically far more powerful Germany. Both parties, however, were at one in desiring to build up their future economic relations on the system of preferential duties, provided always that it were possible to secure from the enemy and neutral States the recognition of the special favors mutually conceded under this system as exceptions to the general principle of most-favored-nation treatment. This constituted the common basis of negotiation.

It was essential, however, that before this negotiation was begun, Austria and Hungary, whose Customs Alliance terminated at the end of 1917, should negotiate and conclude a new agreement (*Ausgleich*); and the Austro-Hungarian Government notified the German Government to that effect.

CHAPTER III

THE LAST *AUSGLEICH* BETWEEN AUSTRIA AND HUNGARY

By the Austrian law of 21st December 1867, and the Hungarian law, Art. XII of 1867, the mutual trade relations of the two countries were to be regulated from time to time. The main provisions of this so-called Composition (*Ausgleich*) were as follows:

Austria and Hungary form a Customs Union. The territories of both States are surrounded by a uniform tariff frontier. Between them there is no customs frontier and no import, export, or transit dues are levied. Everything connected with the common customs tariff is settled by arrangement between the two Governments and can be altered only by common consent. Commercial treaties are concluded by the common Minister for Foreign Affairs on the basis of the agreements reached between the two Governments. The railways are built, carried on and administered on identical principles in both States, and the same applies to internal and external navigation. The salt and tobacco monopolies and all indirect taxes are regulated by similar legislation. The currency is by treaty maintained at the same standard for both States. In connection with the *Ausgleich* the contributions of Austria and Hungary respectively to the common budget are fixed. To this purpose the customs receipts are assigned, any deficiency being made up by each State according to a fixed percentage. In addition to these principal points, there is the regulation of any other economic questions on which an understanding between the two Governments seems desirable.

During the War, the *Ausgleich* concluded in 1907 for ten years remained in force. The negotiations for the new, and last, *Ausgleich* began in January 1916, and were concluded on 24th February 1917. The Monarchy had, however, collapsed before the new agreement could be submitted to the Parliaments. It was, therefore, never published, and the negotiations remained secret, only isolated items of information reaching the public. Thus this last act in the history of the Austro-Hungarian Monarchy remained hidden and would have been difficult for the historian to reconstruct after the negotiators had passed away.

Yet the economic negotiations which led up to this act have a special interest. They throw light on some of the causes of the break-up of the Dual Monarchy, and especially on the unfavorable position in which it stood in relation to the Balkan States. They also explain the ideas as to the politico-commercial reorganization of Central Europe—ideas which the downfall of the Central Powers has not deprived of their significance. The *Ausgleich*, moreover, is interesting as an example of a Customs Union, which lasted for half a century, between two States legislatively and administratively quite separate. History knows no other such attempt to solve this problem; for the German *Zollverein* had its Customs Parliament, and was no more than a stage in the evolution of German Imperial unity.

Austria Desires a Long-Term Ausgleich.

When the discussions on the new *Ausgleich* began at Budapest, on 28th January 1916, Count Stürgkh, the Austrian Minister President, proposed the following guiding lines, which had been agreed upon by an Austrian Ministerial Conference on 24th August 1915:

“1. The existing *Ausgleich* treaty shall, if necessary, be extended for the period of the negotiations aiming at a change in our economic relations with the German Empire in the sense of a closer union.

“2. In the event of these negotiations leading to a closer relation with the German Empire, exceeding a commercial treaty based on most-favored-nation treatment, the existing *Ausgleich* treaty shall be extended for the duration of the new treaty relations with the German Empire, with only such alterations as may be required by the agreements made with Germany.

“3. If in the course of the negotiations it becomes clear that no such closer economic relations with the German Empire will be formed, negotiations for a renewal of the *Ausgleich* shall be begun. For the purpose of these negotiations the existing *Ausgleich* treaty shall, if necessary, be extended beyond its present term, but for not more than two years.”

The renewal of the *Ausgleich*, that is to say, was only to be agreed to in principle, and the negotiations with Germany were then to be begun. The Austrian Government gave as its reason for this that

the negotiations with Germany would otherwise have to be unduly postponed, and that, pending the result of these negotiations and of those for the general peace, it was useless to discuss the details of the *Ausgleich*, which would have to be altered in accordance with these results.

Count Tisza, the Hungarian premier, refused to accept this plan, arguing that the *Ausgleich* must be finished in all its important parts before negotiations with a foreign State could be begun. This was, from the legal point of view, correct; for the two halves of the Monarchy had to form an economic unity before they could take common action abroad. The Austrian proposal was therefore dropped.

The negotiations now began, at Budapest, on the 7th February. Count Stürgkh proposed to confine them to a few chief questions. The international and political situation, he argued, called for the stabilization and consolidation of relations and made it necessary to conclude the *Ausgleich* for a long period. Count Tisza replied that Hungary had in mind an agreement for ten years only; if a number of Hungarian wishes were complied with, the agreement might be extended for at most twenty years.¹

The Hungarian Schedule of Demands.

The schedules of demands were now exchanged. That of Austria proposed only some slight amendment of the *Ausgleich*. The principal demands put forward in the Hungarian list were as follows:

Raising of the financial duties and of the duties on cattle. Abolition of the principle that existing monopolies and taxes on articles of consumption could only be regulated by agreement of both Governments and on like principles. Fixing of low transit dues on Hungarian products passing through Austria. Concession of direct connection of the Hungarian railways with the Prussian railways at Annaberg. Lowering of the Hungarian contribution to the common budget from 36.4 per cent to 34.4 per cent and further to 32.4 per cent in the event of the *Ausgleich* being concluded for a long period. Further:

“In the event of those changes taking place in the territorial

¹ Minutes of the conference at the Hungarian Ministry of Finance, 7th February 1916, Z. 844/M. P.

conditions of the Monarchy, and of the two States within it, which the present situation of the War makes probable, it would be advisable to agree at once upon the following:

"The annexation of Bosnia and Herzegovina, and even of Dalmatia, or a part of it, to the territories of the Holy Hungarian Crown can have no influence on the quota-relation between Hungary and Austria as fixed in the above sense and, especially, shall not lead to any increase of the quota payable by the lands of the Holy Hungarian Crown, as fixed on the above principle, by reason of the increase of its territories.

"In the event of the annexation of Russian Poland, or a part of it, to the Monarchy and the incorporation of this new territory in the Kingdoms and Lands represented in the *Reichsrat* (Austria):

"(1) The newly acquired territories shall be subjected to a burden proportionate to that of the public debts of the two States (Hungary and Austria) before the War.

"(2) In fixing the quota-relation between Hungary and an Austria strengthened by the annexation of Russian Poland, or a part thereof, the existing quota, or the quota as altered in the sense stated above, shall be modified in proportion to the economic strength and taxable capacity of the new territory."

In addition, a series of less important demands were formulated.

The reading of the Hungarian demands filled the Austrians with dismay, Count Stürgkh protesting especially against the suggested separation of Dalmatia from Austria. At the renewed conference on the following day he elaborated his objections. The Hungarian Government, he said, was proposing to widen the economic breach between the two States of the Monarchy at the very moment when the highest political interests of both called for their closer union. The proposals affected precisely those questions which had been most fiercely debated in the past, the reopening of which, after they had at last been settled by a series of compromises, would lead to a renewal of the old battles. It was probable that there would be territorial changes in both States, and the future quota—from 1918 onwards—would have to be fixed according to the taxable capacity of a changed Austria and a changed Hungary. As for the basis for the negotiations proposed by Hungary, the Austrian Government did not believe that this would lead to any result within a measurable time. The Austrian position was that "hand in hand with the

great successes of the Army the more intimate union of the two States of the Monarchy" must be aimed at. The Hungarians thought perhaps that they, as a Parliamentary Government, had to do only with a bureaucracy ruling for the moment without a Parliament. He must make it clear to them that no bureaucracy existed which could make such an *Ausgleich* acceptable to the Austrian people.

Count Tisza, in reply, protested against the assumption that Hungary desired to loosen the ties which bound the two States together. "I think," he said, "that I have given proofs enough that in my case there can be no presumption that I am inclined to flirt with such tendencies." The fact remained that a prolongation of the *Ausgleich* would be hailed in Austria as a victory, in Hungary as a defeat. Prolongation was desired by Austria for economic and political reasons, "but other goods must be brought into the deal." A quota favorable to Hungary would, doubtless, be regarded in Austria as a defeat, the prolongation of the *Ausgleich* as a victory; but the latter would be far more important than any slight change in the percentage of the quota.²

Significance of a Long-Term Ausgleich.

Count Tisza succeeded in calming somewhat the feelings of Austrian Ministers by agreeing to shelve the question of the consequences of eventual territorial changes, and by opening up the prospect of a prolongation of the period to be covered by the *Ausgleich*. This, since 1867, had been renewed every ten years. During the War, however, there had developed a feeling, especially in Austrian political circles, that the time had come to extend the duration of the treaty, both as a proof of the cementing of the union between the two States and in order to avoid the recurring political and economic controversies between them. The War seemed to have made this course possible. It was, moreover, essential that the *Ausgleich* should cover at least the same period as the future treaty with Germany; and the German Government was only prepared to enter into more intimate economic relations with Austria-Hungary on condition that the agreement should be for a long

² Minutes of the conference at the Hungarian Ministry of Finance, 8th February 1916, Z. 756/M. P. 16.

period, so as to give it a chance of surviving the inevitable ailments of its infancy.

The question, however, was looked at by the Austrian and Hungarian Governments from different angles. Austria was always in favor of a close economic union with Hungary, and the friction and disturbance caused by the renewal of the *Ausgleich* every ten years were felt by her as serious drawbacks; the Austrian Government therefore desired to conclude the new treaty for thirty years. In Hungary, on the other hand, there was a strong party opposed to any sort of economic association with Austria; their aim was to restrict the relations with Austria to a purely personal union under the Crown, so as to secure to Hungary the fullest possible measure of independence. The uncertainty attending the renewal of the *Ausgleich* was, moreover, regarded as an advantage by many other Hungarians, since the possibility of the setting up of a Hungarian tariff barrier led Austrian industrialists to establish factories in Hungary. Any lengthening of the period of the *Ausgleich* was thus bound to be regarded as an Austrian success. Yet the Austrian Government might hope to achieve it as a *sine qua non* of the economic treaty with Germany. The Hungarian Government, indeed, was also in favor of the *Ausgleich* and saw that it was to the interest of Hungary that it should be of long duration. In face of the Opposition, however, it would only justify a prolongation of the period of the *Ausgleich* by demanding concessions in return for its consent, and these it was determined to obtain.

This attitude was defined in a declaration appended to the Hungarian schedule of demands. In this the Government adhered to the standpoint that the *Ausgleich* should only be renewed for ten years, especially in view of the revolutionary changes now taking place in economic conditions. It would be prepared, however, in the event of an economic treaty being made with Germany, to extend the period covered by the *Ausgleich* to cover that fixed by this treaty up to the limit of twenty years. In return for this consent, not only were all the demands formulated by the Hungarian Government to be conceded, but, in addition, a further 2 per cent reduction was to be made in the Hungarian quota, adequate measures were to be devised for safeguarding Hungarian industries and commerce, favorable conditions were to be established for Hungarian communications and the transport of Hungarian products in all directions, and

the credit necessary for the economic life of Hungary was to be institutionally secured in the fullest possible manner.

This meant that the Hungarians intended to postpone their decision on the duration of the *Ausgleich* until the end of the negotiations. The Austrian negotiators, therefore, decided to wait until the question was raised before dealing with that of the Quota, which represented the most important concession to be made to Hungary.

Duties on Manufactures.

At the next conference, on 19th February 1916, Count Stürgkh began by stating that all the declarations of the Austrian Government were made on the assumption that the period covered by the *Ausgleich* would be a long one. The negotiations on detailed proposals then began.

The first question to be discussed was that of raising the tariff on a number of manufactured articles which, during the last ten years, had been seriously affected by foreign competition. This question had always been a thorny one; for Hungary relied for the bulk of such articles on her imports from Austria, and protection for the Austrian producer therefore meant a burden on the Hungarian consumer. On the other hand, the growing industries of Hungary were now beginning to feel the need of protection. This helped matters; and so did the fact that the Austrian and Hungarian customs officials, who by dint of long collaboration had learned to understand each other, were able to present to their respective governments proposals which were for the most part identical. It was therefore easy to come to an agreement by which the duties on twenty-six important classes of manufactured goods were increased. The protection thus secured was preponderatingly in the interests of Austrian industries, more particularly those of Bohemia, Moravia, and Silesia, and it is noteworthy that of the new duties the greater number were aimed at German competition, which in Austria-Hungary made itself felt more than that of any other State. The contradiction between such a raising of the protective tariff and the idea of a closer economic relation with Germany was recognized, but its solution was reserved for the negotiations with Germany.³

³ The Schedule of Tariff Duties (*Zolltarifnovelle*) forms Annex 4 to Clause II of the Protocol adopted at Vienna, on 24th February 1917, as a

A novelty introduced into the new *Ausgleich* was agreements for negotiating the lowering of the duties fixed by the treaty. The peculiarity of a common tariff fixed by agreement between two independent Governments is that no alteration can be made in it without the consent of both parties. The result of this had been that alterations urgently demanded in the economic interests of Austria-Hungary had often been blocked because one of the parties considered them incompatible with its own special interest. The consciousness that an increased autonomous duty could not be reduced without the consent of the other party prevented an increase of duties necessary for the purpose of negotiating treaties with other States, and in such negotiations reasonable proposals for a reduction of tariffs had in many cases to be dropped because one or other of the two States considered them contrary to its own particular interests. The Austrian and Hungarian experts had, therefore, agreed to determine, at the same time as the tariff duties, certain reductions of the same which, at the request of the one party, would have to be agreed to by the other. The list was defined under the title "Agreements for the treaty-negotiations."⁴

In this matter the duties on iron caused difficulties. The Austrian Government considered these duties (about 30 per cent *ad valorem*) too high and an obstacle to the development of the ironware and machine industries. Though by far the greater part of the iron industry was in Austria, the Hungarian Government was opposed to the reduction of the tariff, because in Hungary, in addition to a few other ironworks, there was one belonging to the State, of which the working showed very unfavorable results. It was only after lengthy negotiations that agreement was reached on the basis of a substantial reduction of the duties. One concession to Hungary was the permission given to Hungarian petroleum refineries to pay greatly reduced duties on crude oil imported from Rumania, in order to make them more independent of the Galician producers.

result of the initialing of the results of the discussion of the regulation of the economic composition (*Ausgleich*) between Austria and Hungary. This Protocol, which, with its annexes, contains the new *Ausgleich*, will henceforth be referred to simply as the "Protocol."

⁴ "Vereinbarungen für die Vertragsverhandlungen." Annex 5 to Clause II of the Protocol.

Question of the Tariff on Agricultural Produce.

The question of the new tariff for manufactures was thus settled easily enough. It was otherwise with the duties on agricultural produce. The agrarian movement in Austria, which had grown mightily under severe pressure of foreign competition, supported the Hungarian Government in demanding the retention and increase of the duties on agricultural produce and a prohibitive tariff on the importation of live-stock and meat. The attitude of the Austrian Government, however, was influenced by the lack of foodstuffs during the War, by the decrease of imports from Hungary, and also by the conviction that, after the War, it would be necessary for political reasons to cultivate closer economic relations with the Balkan States. The Hungarian Government, on the other hand, saw in the securing of the Austrian market, at prices higher than those generally prevailing, the most important advantage gained by Hungary from the common customs area and as due compensation for the benefits accruing to Austria from the duties on manufactured goods.

The first dispute arose on the question of a minimum duty on grain. In the tariff of 1906 such a minimum had been fixed, and it had been laid down that the lowering of this could not be the subject of negotiation. To this settlement the Hungarian Government adhered firmly. The Austrian Government, on the other hand, saw in the fixing of a minimum an insuperable obstacle to any future economic *rapprochement* with the Balkan States and sought, therefore, to include it among those articles of agreement which could, from time to time, be altered as the result of negotiations between the parties. In the end, it was agreed that the minimum duties should be retained. In the event, however, of any preferential trade relations being established with the German Empire, or with any other State, the Hungarian Government undertook to give the question of a reduction of the minimum duties on grain favorable consideration, provided that the totality of the countries concerned retained the character of a grain-importing area.

The Hungarian Government demanded that Hungarian mills should be allowed to import grain free of duty, on condition of exporting an equivalent amount of flour. This had long been refused by the Austrian Government; for the privilege would have been useless to the small Austrian mills, and these feared the increased power

which their large Hungarian rivals would derive from it. The debates ended with the adoption of the Hungarian demand, with certain limitations.

A Hungarian proposal to put a duty on imported wool, in the interests of the Hungarian wool-growers, was dropped, partly owing to the opposition of the Austrian Government, which pointed out the damage that would be done to the important woolen industries in Bohemia, partly owing to the difficulty of determining the proportion of wool in woven stuffs mixed with other materials and returning the duty when the finished article was exported.

The Trade in Live-Stock.

Of all the questions at issue the most difficult to settle was that of the importation of, and duties on, live-stock. This was a question which had long played an important part, notably in negotiations with the Balkan States. The embargo on the importation of live-stock from Rumania, and the hampering and limitation of that from Serbia, had over and over again led to tariff wars and had done much to strain political relations with the Balkan States. The Hungarian Government now demanded largely increased duties on live-stock and a strict limitation of the number imported.

These demands led, at the beginning of May, to heated debates between the two Governments. The Austrian Minister President denounced as anti-social an *Ausgleich* involving increased duties on foodstuffs, and, in doing so, he was expressing the views of the Austrian people. Although, before the War, there had been an embargo on the importation of live-stock from those countries able to export it in large numbers, and only the importation of fixed quantities of meat was permitted, any raising of the duties on live-stock was certain to arouse the most lively opposition in Austria, where even before the War, and yet more during the War, the dearth of foodstuffs had led to a demand for a drastic lowering of the import duties on live-stock and meat. In spite of this, however, Count Stürgkh, faced by the utterly unyielding attitude of Tisza—who declared the acceptance of the demand for an increase of duties to be the *conditio sine qua non* of the *Ausgleich*—yielded step by step; and in the end the Hungarian demands were conceded.

With regard to the importation of live-stock from the Balkan States, it was agreed that this should be subject to increased duties

levied by each of the two States of the Monarchy and that only fixed contingents (80,000 cattle and 120,000 pigs) were to be admitted under the increased duties imposed under the treaty. The importation of live-stock, moreover, was to be made dependent on the Balkan States allowing their veterinary arrangements to be controlled by Austrian and Hungarian officials. The contingents were to be yet further reduced "in the event of a part of the Balkans being incorporated in the Treaty Customs area of the Austro-Hungarian Monarchy."⁵

The concession of the importation of live-stock from the Balkan States would, in itself, have meant an improvement. But the condition that they should agree to Austrian and Hungarian control of their veterinary police made any treaty impossible. It was the demand for such control that had led to the tariff war with Rumania; and the insistence now on this control abroad, when it had been abundantly proved that control on the frontier sufficed, made any importation of live-stock improbable.

The interest of Hungary in the protection of her stock-raising industry is easy to understand; but it is also easy to see how little justified was her anxious insistence on the limitation of the importation of live-stock, if we compare the allowed contingents with the actual consumption in Austria-Hungary, which amounted annually to two million oxen, twelve million pigs, and a number of calves which, though indeterminate, certainly exceeded that of the bees. The desire of the Austrian Government to provide against the meat famine after the War, by importing meat from overseas, resulted only in a provision that the city of Vienna might import 20,000 tons of Argentine beef annually for three years. At the end of these three years the importation of overseas meat was to be entirely forbidden.

Particularly shrewd was the Hungarian contention that the hitherto unlimited importation of live-stock from Germany and the other western countries, though far outweighed by the export to them of live-stock from Austria-Hungary, should be included in the contingents fixed; while at the same time these States were to be asked to permit the unlimited importation of live-stock from Aus-

⁵ See Annex B of the parallel lists of the Austrian and Hungarian demands. Vienna, 12th May 1916.

tria-Hungary, subject only to low duties fixed by treaty. In the event of an economic *rapprochement* with Germany, indeed, this one-sided arrangement was to be revised, so far as the German Empire was concerned. There was no mention of any such revision in the event of closer economic relations being established with the Balkan States.

These agreements had been reached by the two Ministries of Agriculture, under pressure from the two Ministers President, Count Stürgkh and Count Tisza. The other Austrian negotiators were surprised by them and declared that it would hardly be possible to carry them through in Austria, and that they were likely to have a serious effect on economic relations with her neighbor States. The controversy therefore began all over again, and continued until the conclusion of the treaty.

The outcome of the conferences during May on this matter was but the record in the Protocol of the irreconcilable differences between the views of the negotiating parties. The Austrians maintained that agreements with regard to the importation of live-stock applied only to the Balkan States; the Hungarians were determined that they should apply to other States as well, including Germany. The Austrians placed on record their firm determination to have this minimum fixed for the period of the *Ausgleich*, and not to allow it to be made the subject of negotiation during that time.

The resumed conferences, in July and August, resulted only in provisional agreement, which was embodied in the following singular statement:

It is agreed that the duties fixed by the Treaty and set forth in the Annex thereto shall represent the line, below which the States interested shall not go in the negotiations for any modification of the Treaty. On the part of Austria it is, nevertheless, declared that, in the event of its becoming clear in the course of such negotiations that the maintenance of this principle would prove an absolute obstacle to the conclusion of commercial treaties with the States in question, she would reserve the right, while paying regard to the actual need of the internal live-stock industry for protection, eventually to consider such further diminutions of tariff duties on live-stock as might seem admissible and to bring forward proposals accordingly. This statement was taken note of on the part of Hungary with the reservation that the Hungarian Government must maintain the standpoint and the agreements arrived at in

relation to it, whereby the tariff duties fixed by treaty and scheduled above must in consideration of the preservation in all circumstances of the vital interests of our national economy unconditionally represent the extreme limit of any advances we may make towards the States in question.⁶

Clearly, the question was no nearer a settlement, and the debates upon it were to continue for a long while yet.

The Quota.

In the second week of August a crisis threatened. Most of the other questions having been disposed of, that of the Quota was brought up for discussion. The Austrian Minister of Finance, who did not want to hear anything more about an increase of the Austrian quota, had agreed to certain financial concessions to the Hungarians, in the hope they would drop this matter. But, from the political point of view, the Quota was for Hungary the most important point of all; and it now became clear that the Austrian Government would have not only to make the financial concessions but to agree to a lowering of the Hungarian quota as well. This led to a crisis both inside the Austrian Government and in the negotiations with the Hungarians. The position of the Austrians was the more difficult as they feared that the concessions they had made would appear, not as a favor bestowed upon the economically weaker part, but as a trophy won by the part which was politically stronger. By the terms of the *Ausgleich* of 1907 Austria had to contribute 63.6 per cent and Hungary 36.4 per cent to the common expenses of the Monarchy. Count Stürgkh now proposed that the Austrian quota should remain unchanged for ten years, then be raised $\frac{1}{2}$ per cent for three years and for a further period of five years by $1\frac{1}{2}$ per cent. The Hungarian Government reduced its original demand for a reduction of 4 per cent in the event of the *Ausgleich* being concluded for a long period. It now proposed that the Austrian quota should be increased in the first three years by 1 per cent, in the next five years by 2 per cent, and in the last ten years by 3 per cent.

The Final Negotiations.

The negotiations were interrupted for a considerable time by the

⁶ Minutes of the conferences in July and August 1916, addendum 3.

outbreak of war with Rumania. Meanwhile, a scheme for a tariff common to Germany and Austria-Hungary was being elaborated in Berlin, and when, in October, this work was completed, the *Ausgleich* had to be taken in hand again in order to make further negotiations with Germany possible. On 21st October Count Stürgkh was assassinated. He was succeeded as Minister President by Dr. Körber, who opened negotiations with Count Tisza on the still unsettled points, especially the Quota and the importation of live-stock, and rejected the Hungarian request that Hungarian bonds should enjoy pupillary security in Austria.

On 21st November 1916 the Emperor Francis Joseph died, and was succeeded by the Emperor Charles. Since the conference on the *Ausgleich*, which had been resumed at Budapest, showed no signs of coming to any agreement on the disputed points, the new Emperor summoned Körber and Tisza to headquarters, in order to discuss the *Ausgleich* in his presence, and pressed for its speedy conclusion. Körber, however, continued to insist on certain alterations, and as the Emperor was not at one with him in certain internal questions also, he handed in his resignation on 13th December. He was succeeded as Minister President by Count Clam-Martinitz, who as Minister of Agriculture had taken an active part in the negotiations. These were resumed by him at Budapest on 29th December, and by the end of January 1917, an agreement was at last reached on the questions of the Quota and of the importation of live-stock, and it was settled that the treaty should remain in force for twenty years. The *Ausgleich* was now completed and, after a few remaining details had been adjusted, it was signed on 24th February 1917.

The Last Ausgleich.

The instrument thus executed is exceedingly difficult to understand, even for experts, partly because of the complicated mass of the material with which it deals, but more particularly because all the agreements are in the form of amendments of, or additions to, the *Ausgleich* of 1907 and can only be understood by reference to it. It must suffice here to point out its main provisions, more especially as they affected the relations between the two halves of the Dual Monarchy and of the Monarchy as a whole with the neighboring States.

(a) THE QUOTA.

It is clear that the terms of the new *Ausgleich* represented considerable sacrifices on the part of Austria. In return for the extension of the duration of the treaty from ten to twenty years, which was essential to the success of the negotiations for an economic alliance with Germany, the Austrian Government was forced to make considerable financial concessions. The Hungarians had, indeed, abated their extreme claims in the matter of the Quota; but, though this was to remain unaltered until the end of 1922, it was thenceforth to be readjusted every four years in favor of Hungary, so that during the period 1st January 1933 to 31st December 1937 (when the *Ausgleich* would again need renewing) the Hungarian quota, instead of 36.4 per cent, would be 34.4 per cent, and the Austrian, instead of 63.6 per cent, 65.6 per cent.

How great the sacrifice involved in this would be was, of course, unknown, since the future common expenses of the Monarchy were unknown; but on the basis of pre-war expenditure it was reckoned that 1 per cent of the Quota meant about 3,000,000 kronen. Thus, even without any increased budget, the change involved a considerable lightening of the burden on Hungary at the expense of Austria.

According to the law, indeed, the quotas were regulated by the Delegations of the two Parliaments, which had had no part in the discussions between the Governments. To guard against any awkward results from the reopening of the question in the Delegations, the two Governments agreed, in a secret article annexed to the Protocol, to bring every possible influence to bear upon them "in the sense of the agreement," and also when the Bills came before the respective Parliaments, to tack that dealing with the Quota on to that embodying the *Ausgleich*, so that the rejection of the one would involve the rejection of the other.

(b) OTHER FINANCIAL CONCESSIONS BY AUSTRIA.

In addition to the raising of her quota, Austria made other financial concessions. Since the proceeds of the customs were ear-marked for the purposes of the common budget, and Austria consumed 80 per cent of the dutiable articles, the increase of the customs duties on tea and coffee by 50 per cent meant an additional annual burden upon Austria of some 5,000,000 kronen, for the benefit of Hungary. The

costs accruing to Austria from the agreement about the railways and about indirect taxation were reckoned at 6,500,000 kronen. In general, the increased burden upon Austria may be assessed at from 15 to 18 million kronen yearly.

The Austrian Government also made another financial concession, the sacrifice involved in which cannot be stated in figures. By the treaty both Governments agreed that the State Debt certificates and bonds of either State should henceforth be recognized in the other State as suitable for the investment of trust funds, of the money of the Post Office Savings Bank and other public institutions, and so on. The arrangement was reciprocal in form. In reality, it was almost wholly to the advantage of Hungary, since it placed Austrian capital at the disposal of Hungarian business under particularly favorable conditions.

(c) INCREASED AGRARIAN PROTECTION.

Another concession made by Austria, in return for the longer duration of the *Ausgleich*, was the raising of the protective tariff on agrarian products, and especially of the duties on live-stock. Both Körber and Clam-Martinitz had characterized the agreements made by the former Government as irrational, unclear, and impracticable, and they had with great difficulty succeeded in obtaining certain modifications. The conventional duties were now to apply to cattle, without any limitation of the number imported, and in the case of pigs only to a contingent of 200,000 head. This arrangement was to be valid for two years, after which a "transition régime" was to be initiated, to last till the end of 1923, the object being to avoid the dangerous popular agitation that might be caused by raising the duties when the dearth of meat was being severely felt. The Hungarian Government, moreover, withdrew its objection to future proposals for the reduction of the tariff. This concession, however, was balanced by the inclusion in the text of the treaty provisions by which the importation of live-stock from the Balkan States was to be conditional on their allowing Austrian and Hungarian control of their veterinary police, duties were to be lowered only on specified contingents, and these contingents were proportionately to be lessened in the event of portions of the Balkan States being included in the customs area of the Monarchy.⁷

⁷ Annex 6 to Clause II of the Protocol, "Importation of live-stock from foreign parts."

The trade in cattle between Austria and Hungary was, at the desire of the latter, made the subject of very detailed agreements.

The free trade inside the Monarchy, secured under the old *Ausgleich*, had in the case of raw materials and foodstuffs been restricted during the War in a way highly injurious to Austria. The Austrian Government therefore proposed that even in war time such restriction should only be imposed with the consent of both States. This the Hungarian Government accepted, but with a proviso which all but destroyed the value of the concession, namely, that in case of urgency such restrictions might be provisionally imposed by one Government alone. Since, at the beginning of the War, the removal of the duties on foodstuffs, necessitated by the needs of the Army and population, had been delayed by the opposition of the Hungarian Government, it was now agreed that in war time the duties might be provisionally reduced or abolished at the desire of one of the two Governments.

(d) INDIRECT TAXES.

The provisions of the *Ausgleich* as to indirect taxes were important. The inclusion of two States in a single customs area involves the principle that the indirect taxes must be the same in both, since otherwise the articles taxed would only be manufactured in the State in which the taxes were lower. The demand of the other State would be satisfied by imports from that in which the duties were lower, since they were divided by no customs barrier, so that its own indirect taxes would be ineffectual and its production damaged.

For this reason Austria and Hungary had the same scale of taxes. But this system, too, presented difficulties. It was natural that each State should desire to enjoy the full benefit of the taxes derived from its own consumption. Since, however, the excise duties were mostly collected at the factories and the goods thus taxed circulated freely in the whole Monarchy, a portion of the demand of one of the States was supplied by imports from the other, which thus secured a revenue from duties imposed upon the consumption of the other. For this reason there had been introduced into the earlier treaties⁸ the so-called transfer process (*Überweisungsverfahren*), i.e., the duties on sugar, beer, brandy, and petroleum exported from

⁸ *Ausgleich*.

one State into the other were to be handed over to the Government of the importing State. There was a further complication in the case of articles in the manufacture of which dutiable ingredients were used, *e.g.*, sweets, medicines, perfumes, etc. In the new *Ausgleich* it was agreed that the duties on the latter class of articles also, as determined by a fixed scale, were to be assigned to the importing State—an arrangement which would certainly have seriously hampered trade.

Free trade in sugar had, indeed, been long restricted to a certain quantity, anything above this being subject to a surtax of 3.50 kronen per 100 kg. This had been insisted upon by the Hungarian Government, in the interests of the growing sugar industry of Hungary, as a condition precedent to its acceptance of the Brussels Convention. In the new *Ausgleich* the surtax was raised to 4.60 kronen, the two Governments at the same time agreeing to abide by the terms of the Brussels Convention in the matter of the duties on sugar imported from abroad.

The Hungarian Government further secured the right to establish, in addition to the salt and tobacco monopolies existing in both States, a petroleum and spirit monopoly. This, which on certain conditions was to be done on its own initiative alone, would have abolished free trade in these articles within the Monarchy, as was the case with the other monopolies. The Hungarian Government also secured from the Austrian an agreement not to oppose a one-sided Hungarian monopoly of the insurance business, on condition that the Austrian insurance companies should not receive less favorable treatment than the Hungarian.

(c) RAILWAY INTERCOURSE.

In the new *Ausgleich* the principle was retained that the railways of both States were to be administered on an identical basis and subject to the same traffic regulations, alterable only by common consent. To this was now added a provision by which in the event of either of the contracting States granting a rebate on the rates charged for the goods of a third State passing through its territory, a similar rebate was to be given on the rates charged for the goods of the other contracting State. This, however, was not to apply in the event of the lower rates conceded to a third State having for their exclusive object the attraction to the railways and sea

harbors of the Monarchy of consignments of goods which would otherwise be sent by routes lying outside it.

Very detailed agreements were also made for the fixing of low rates for the transport of the goods of one of the contracting States over the railways of the other. These were far more favorable to Hungary than to Austria, with the exception of the so-called Orient taxes for the commerce with the Balkans, which were actually of importance only to Austria. Austrian railway communication with Bosnia and Herzegovina, as well as with Dalmatia, had been severely hampered by the Hungarian Government, mainly for political reasons. The Austrian Government did not succeed in ensuring facilities for this communication in the new *Ausgleich*.

Austria, on the other hand, refused to agree to the linking up of the Hungarian and Prussian railway systems at Annaberg. This connection passed for 70 kilometers over Austrian territory, which enabled the Austrian railway administration to forward its interests in negotiations with the Prussian and Hungarian railways about the division of traffic and the fixing of rates. It would also have made it possible to put obstacles in the way of railway communication between Prussia and Hungary. This, however, was never done; on the contrary, everything possible was done to improve the formerly very deficient arrangements for such communication at the station of Oderberg, and the Austrian Government guaranteed the remaining in force of the treaties providing for the use of this station for the duration of the *Ausgleich*. It was the feeling that this communication depended on the good will of Austria, and that, in the event of a future failure to renew the *Ausgleich*, direct railway communication between Hungary and Germany might be cut off, owing to Austria's control of this stretch of line, which led the Hungarian Government to demand that the Hungarian line from Kaschau to Oderberg should be allowed direct connection with the Prussian State railways. The Austrian Government objected that it could not cede the sovereignty over a stretch of railway in its own territory, and therefore rejected the demand. The Hungarians then let the matter drop.

(f) THE MONEY STANDARD.

A unitary money standard was an essential condition of the economic community between Austria and Hungary. It was matter of

contention whether or no there should be a common bank of issue, the Independence Party in Hungary opposing this for political reasons. For this reason the Hungarian Government, in the *Ausgleich* of 1907, had reserved the right to establish a bank of issue independently, but had made no use of this right. The new *Ausgleich* once more contained the treaty which fixed the unitary currency standard and bound both Governments to extend the privilege of the Austro-Hungarian bank of issue for the duration of the new *Ausgleich*. One or two minor concessions were made to Hungary, *e.g.*, that the considerable profits made by the Bank during the War out of dealings in bills and foreign exchange, of which 85 per cent went to Austria and only 15 per cent to Hungary, should be assigned to the fund for restoring the parity of money values.

The two Governments agreed that any war indemnity accruing to the Monarchy should be assigned in due proportion to paying off the debts of the two States to the Austro-Hungarian Bank. It was also agreed that everything must be done by the two States to restore parity, and that for this purpose agreements were to be arrived at, at latest at the conclusion of peace, to pay off, within five years at most, the debt to the Bank incurred owing to the War, and for this purpose to provide the necessary money. On the liquidation of this debt the obligation of the Austro-Hungarian Bank to maintain the parity of the value of its notes was to remain unconditionally in force.

The remaining provisions of the *Ausgleich* were of less importance. Agreements were made as to the dealing in futures in grain, which was forbidden in Austria, but allowed in Hungary. Austria wished to secure its prohibition in Hungary, but could only obtain somewhat vague promises of a reform of this dealing on the Budapest Exchange. The strict wine laws in both States were made unalterable save by common consent, a point on which Hungary laid stress because of her important viticulture.

The agreements regarding the avoidance of double taxation and the treatment of undertakings concerned with inland navigation received a few alterations.

(g) THE GENERAL CLAUSES.

The essential parts of the *Ausgleich* had thus been completed. Since, however, all the questions raised had not been settled a gen-

eral clause was added providing for their future discussion at the request of one or other of the Governments. Thus, it was declared, had been created "the presuppositions for the negotiation of economic relations with the German Empire." Any amendments or additions necessitated by a change of economic relations with a third State, and more particularly with the German Empire or as a result of the peace treaties, were to be made the subject of separate agreements between the Governments. In view of the possibility of such amendments, the Governments agreed not to publish the treaty or to lay it before their respective Parliaments until the future economic relations with the German Empire had been defined.

The Ausgleich Kept Secret.

Only the fact that the new *Ausgleich* had been signed was made public; its terms were not revealed. Yet it was at once known that it had been concluded for twenty years; and this news was received in Austria with lively satisfaction, one Vienna newspaper declaring that the *Ausgleich* was a victory over the enemies who had hoped to break the indissoluble bonds between Austria and Hungary, and that the Monarchy would emerge from the storms of the World War "more unassailable and more enduring than ever."

When, however, news of the financial burdens and the duties on live-stock imposed by the *Ausgleich* leaked out, a strong opposition began to appear. In Hungary, equally strong protests were at once made against its twenty years' duration. On 26th February, in the Parliament at Budapest, Count Apponyi denounced this concession as a violation of the Constitutional guarantees contained in the laws dealing with the *Ausgleich*, and Count Károlyi⁹ declared that if this provision were ever put into force, it would lead to scenes and violent measures which would expose to the whole world the nature of the dictatorship under which Hungary was groaning.¹⁰

⁹ Count Michael Károlyi, formerly a Conservative Agrarian, but now leader of the Radical wing of the Independence Party. He became Prime Minister in the revolution of October 1918 and in January 1919 was elected President of the Hungarian People's Republic. W. A. P.

¹⁰ On 23rd March 1917, in the face of strong opposition, the Hungarian Parliament had passed a bill conferring extraordinary powers on the Government for the duration of the War. W. A. P.

After the fall of the Tisza administration on 23rd May 1917,¹¹ indeed, it was doubtful if the new Government would take over the *Ausgleich*. Feeling was strongly against it, if only owing to the need for conciliating the Independence Party, and of the new Ministers one, Count Apponyi, had made it clear to the Austrian Government that, while he was prepared to conclude a twenty years' treaty with Germany, he would have nothing to do with a twenty years' *Ausgleich*. A number of new formulae were suggested for overcoming the difficulty; but the nature of these proposals was such that, since the Austrian concessions had been the price paid for the prolongation of the period of the *Ausgleich*, the acceptance of any one of them would have thrown the whole treaty back into the melting-pot. The whole problem of Dualism would then have had to be faced over again, and it would have been all but impossible to bring a new *Ausgleich* into being. This would have made the crisis permanent; the negotiations with Germany would have been made impossible; and the Monarchy would have been paralyzed in all its external relations.

From this crisis the Monarchy was preserved by the acceptance of the Hungarian premiership by Dr. Alexander Wekerle,¹² who was a supporter of the twenty years' *Ausgleich*. It was now decided to put the negotiations with Germany rapidly in train once more, and to defer publication of the *Ausgleich* until the German treaty was concluded, when they would be laid together before the two Parliaments.

Since, however, the old *Ausgleich* of 1907 lapsed on 31st December 1917, a provisional arrangement had to be made to cover the period between this date and that of the coming into force of the new treaty. On 18th November 1917, accordingly, a treaty was concluded for the prolongation of the old *Ausgleich* until 31st December 1919. This was agreed to by both Parliaments and received the assent of the Emperor-King on 27th December. On the

¹¹ The immediate cause of Tisza's fall was his refusal to accede to the demand of the Emperor-King Charles, that every Hungarian soldier who had gained the *Karl-Truppen-Kreuz* for service at the front should be given the franchise. W. A. P.

¹² On 20th August. Tisza had been succeeded as Prime Minister, on 15th June, by Count Maurice Esterházy, who failed to hold the Government together, especially on the burning question of universal suffrage. W. A. P.

question of the Quota, however, the Parliaments were at variance. They agreed, indeed, that it should remain unaltered for the next year, but the Hungarian Parliament insisted that it should be fixed for two years—like the *Ausgleich*—whereas the Austrian Parliament refused to fix it for more than one year. The Quota for the second year had, therefore, to be fixed by the Monarch, in accordance with the law.

With this *Provisorium*, the term of which had not expired when Austria-Hungary collapsed, ends the history of the Austro-Hungarian *Ausgleich*.

CHAPTER IV

CONTINUATION OF THE NEGOTIATIONS WITH GERMANY

The First Conversations.

THE negotiations for an economic *rapprochement* between Austria-Hungary and Germany had, meanwhile, not come altogether to a standstill. As early as 8th March 1916, Count Wedel, the German ambassador in Vienna, handed in at the Austro-Hungarian Foreign Office the copy of a note in which the German Government pointed out that the taking of the necessary steps preliminary to the negotiation of an economic treaty ought not to be postponed until the conclusion of the *Ausgleich*. The German Government appreciated the fact that Austria and Hungary could not enter into binding engagements with Germany before they had come to an agreement as to their economic relations with each other. The making of such an agreement was, however, so confidently to be expected, that there ought to be no obstacle to the preliminary discussion as to the domains in which a closer union between the German Empire and Austria-Hungary would be possible and desirable, and as to how the necessary machinery for this purpose, *e.g.*, the appointment of commissions of expert referees, should be set up. Besides the important but difficult question of the scale of duties on their reciprocal commerce, there were a number of other points which might be included in a long-term treaty having for its object the closer economic association of the two Empires. Among these were numerous provisions contained in existing treaties, in themselves undisputed, but having no firm basis of principle, since they were contained in short-term conventions which might at any time be denounced. Among these special mention was made of the provisions as to the prohibition of exports and imports, the prohibition of transit dues, frontier regulations, the schedule of duties, etc. In these matters there was the possibility of arranging for mutual facilities of which other States would not be able to avail themselves. There was the further question, whether in the prescriptions as to industrial property and in the matter of communications (railways and waterways) it would be possible to effect a closer association. Great stress

was further laid on the importance—quite apart from the question of the scale of duties—of making the schedule of dutiable goods on both sides as uniform as possible, since without this any common commercial policy of the two Empires towards third States would be made immensely more difficult. For all these reasons the German Government considered it desirable to begin the discussion of these points in principle at once.

The reply of Austria-Hungary to this note was favorable, and the conversations between the German and Austro-Hungarian representatives opened on 27th April 1916, and lasted for four days. These conversations were necessarily tentative and inconclusive. The speeches of the Austrian ambassador, von Merely, who presided, and of the German ambassador, von Tschirsky, merely enlarged in general terms on the splendid vista opened up if, after the War, the Powers now allied in arms were to be bound together as closely as possible in an economic union as well. The Commission of Experts reported that the making of uniform tariff schedules would be of the utmost value in helping towards the realization of the closer economic union between the two Central Powers, and for their common action in the conclusion of commercial treaties with third States. The Commissioners added in their report:

Everything here stated is based upon the presupposition that such a collaboration is not inspired by any aggressive tendencies against other Powers, but that its aim is only to further the economic prosperity of the two Empires by the utmost possible development of their own resources, as well as by the clear recognition of the economic interests of other States.

A Commission was now set up for the elaboration of uniform tariff schemes, and the lines on which it was to work were laid down.

The Making of a Uniform Tariff Schedule.

This Commission sat in Berlin from 12th to 27th May and from 18th September to 12th October 1916. Its task was to create a single tariff schedule out of those of Austria-Hungary and Germany, the question of the scale of duties being left open for the present, and attention given only to the tariff text, which contains the classification of goods by tariff classes and numbers.

Such an amalgamation of two tariffs is a work of great technical

difficulty. The classification of dutiable goods is in each State a development due to historical causes, such as the influence of those interested and their organizations or the traditions of the tariff experts. For the latter it was a difficult task to devise a uniform scheme, and much good will on either side was needed for its successful accomplishment. It was a comparatively simple matter when one class of goods in the German tariff corresponded to several classes in the Austrian or *vice versa*. The distinctions desired by one party were adopted in the common tariff, and the other party reserved the right to impose the same duties on all these classes of goods. Germany, for instance, lumped all toys together under one category "Toys," because the far greater importance of her export trade in children's toys made any differential treatment of the various classes of toys imported a matter of no importance to her. In Austria-Hungary, on the other hand, toys were classified according to their material and so fell under every class of the tariff and sometimes, in the same class, under several different numbers. It was now agreed to follow the example of Germany in lumping all toys together; but, in accordance with the desire of Austria, the classification according to material was retained. This classification was as far as possible simplified, so that in the common tariff the whole of these goods were embraced under one tariff number and seven sub-divisions.

The task was more difficult in those cases where the two tariffs had different principles of classification. This difficulty was overcome by either Austria-Hungary or Germany accepting the classification of the other, or in certain cases by the adoption of a new classification satisfactory to both. The most difficult cases were those in which the articulations of the two tariffs cut across each other or could not be brought into harmony, and each party felt it necessary for economic reasons to retain its own. All these difficulties were, however, overcome and a tariff scheme was created which, though over-articulated in certain tariff classes, was technically a fine piece of work. It contained 1,336 numbers.

The Plan of an Economic Alliance.

While this work was proceeding, numerous discussions took place with the members of the German Government and other influential German officials on the methods by which an economic *rapproche-*

ment between the two Empires might be secured. It was soon clear that in Berlin there was no agreement on the matter. In general, opinion was in favor of the *rapprochement*, but Sydow, the Prussian Minister of Commerce, had misgivings on account of the question of most-favored-nation treatment. The Austrian delegate, Ministerialrat Schüller, put forward a scheme, which had the support of the Austrian and Hungarian Ministers of Commerce, under which each Empire would retain its duties on foreign goods, but would concede to the other free trade in all branches of production which would not be threatened by it, and, for the rest, a mutual reduction of duties on each other's goods by half, provided that such reduction should not be by more than the amount of duty levied by the other State on foreign imports. It was further proposed that all commercial treaties should be concluded in common.

This plan had the merit of being simple and of preserving the independence of each Empire in the matter of tariffs, which was particularly necessary in the case of Austria-Hungary, for internal political reasons. It also made possible, as it were automatically, the protection of home production; for in those cases in which, *e.g.*, a branch of production in Austria-Hungary needed protection more than in Germany, it had as a rule been already protected by higher duties, and the reduction of these would only have been in proportion to the lower duties imposed in Germany. This plan found at the outset little support in Germany, and it was only after several others had been elaborated and found wanting, that agreement was at last reached on a project which, in its main features, was based upon it, but in general was clearer and simpler.

During the sitting of the Commission on the unification of the tariff schedules, conferences were also held in Vienna (21st to 26th July 1916) in which a number of other questions connected with the proposed alliance were discussed. The only agreement reached, however, was in laying down certain guiding principles for the preparation of uniform trade statistics. After the conclusion of the work of the Commission and of the conferences at Vienna the whole matter was allowed to rest, as all energies in Austria and Hungary were concentrated on the conclusion of the *Ausgleich*. It was not till February 1917, when the *Ausgleich* had been agreed to by both Governments, that the question of the economic alliance between Austria-Hungary and Germany came once more into prominence.

CHAPTER V

THE AUSTRO-HUNGARIAN INSTRUCTIONS

Austria-Hungary's Plan.

THE subject of the negotiations with Germany was taken up once more on 6th May 1917, when a conference of Austrian and Hungarian Ministers was held at Vienna, under the presidency of Count Czernin, to draw up the necessary instructions. At this meeting it was decided only to lay down guiding lines, and to leave the working out of details to the Customs and Trade Conference (*Zoll- und Handelskonferenz*), a permanent committee consisting of the Austrian and Hungarian Ministers of Commerce and Agriculture, with the common Minister of Foreign Affairs as chairman, charged with the duty of adjusting any differences that might rise between Austria and Hungary in connection with the *Ausgleich*.

The instructions drawn up for the guidance of this body were as follows:

“Austria-Hungary and the German Empire conclude a treaty by which it is agreed to take common action and to give mutual support in the spheres of commercial and financial policy and of trade intercourse—and also during the period of economic transition.

“I. Commercial Policy.

“1. Austria-Hungary and the German Empire conclude a treaty providing for mutual preferential duties or abrogation of duties, especially on agrarian produce, which shall not be conceded to other States, unless such States be permitted to join in the treaty with the common consent of Austria-Hungary and the German Empire.

“2. The basis of the negotiations is our autonomous customs tariff now in force with the alterations adopted or to be adopted in the *Ausgleich*.

“The lowering or abolition of duties shall on both sides go as far as shall be possible without endangering important producing interests.

“The preferential duty to be conceded can, however, not be lower

than the difference between the duties imposed by the two parties on foreign goods.

“3. In the case of goods receiving preferential treatment the amount of such preference cannot be diminished in negotiations with fourth States save by common consent.

“4. Preference shall be extended to as many classes of goods as possible. In the negotiation about each class of the tariff each party shall—instead of a mutual presentation of lists of demands—submit to the other the diminution or abolition of duties it is prepared to concede, whereupon any further demands the other party may make will be the subject of negotiation.

“In connection, however, with the elaboration of such a list of the concessions we are prepared to make, the Customs and Trade Conference is to draw up a list of our demands, but this latter is provisionally not to be communicated to the German Government.

“For the rest, the negotiations to be begun with the German Empire shall be so conducted as to lead the German Government in connection with the tariff question to reveal its further desires in the most exhaustive manner possible.

“5. As favorable as possible veterinary agreements, on the basis of those made in the recent *Ausgleich* between Austria and Hungary.

“6. Protection against the deleterious consequences of the recently enacted German Imperial Coal Tax Law (*Reichs-Kohlensteuergesetz*).

“7. The Customs and Trade Conference has also to consider the question what other States shall be free to come into the treaty, and under what presuppositions and conditions.

“8. The treaty will be concluded for a period of twenty years; at most five years after its coming into force, there will be a revision of certain of its provisions, whereby in default of agreement the *status quo* is maintained.

“The Customs and Trade Conference is also to examine into the possibility of by any means solving the question, whether it would not be necessary now, in view of the totally changed conditions of prices and with the object of safeguarding the effects of the protective tariff, to come to such agreements as would make it possible to bring the duties imposed into harmony with the rise in prices as compared with those which prevailed in time of peace.”

Of the remaining articles of the instructions, one emphasizes the necessity for the common action of Germany and Austria-Hungary in dealing with the economic problems arising during the transition period after the War. The last lays down generally that the legislation of both parties on economic matters should be as far as possible assimilated.

In addition to the instructions, the conference also drew up a memorandum (*Promemoria*) for the guidance of future Ministerial conferences or correspondence. This laid down, *inter alia*, that in the making of trade agreements with States outside the treaty a common procedure on the part of Austria-Hungary and Germany was to be aimed at, but that this must be consistent with each of them preserving its freedom of action and politico-commercial independence. Any common action must be the result of agreements in each case as it arose. But, in general, there should be friendly co-operation and mutual support in commercial negotiations with outside States. The memorandum also pointed out the danger that a State might refuse to recognize the situation arising out of the Central European organization, and take retaliatory measures. The Austro-Hungarian negotiators were to propose that any such attitude should be met by the Central Powers, if necessary, by breaking off treaty relations or even by a tariff war. If, however, Germany had any other expedient to propose, this was to receive favorable consideration.¹

Acceptance by the German Delegates.

On 16th July 1917, Austrian and Hungarian Ministers had an informal discussion with economic experts attached to the Berlin Foreign Office on the basis of the coming negotiations. It was clear from this that there was agreement on general principles. Herr Johannes declared, on behalf of the German Government, that while it considered a complete Customs Union to be impracticable, it agreed that a system of reciprocal preference might be established between the two Empires. As to the extent and nature of this preference, Germany was prepared to meet the wishes of Austria-Hungary. It would be necessary to draw up new tariffs on both

¹ Printed *Résumé* of the Imperial and Royal Ministry of the Exterior, without number or date.

sides and to bring the legislation on the subject in the two Empires as far as possible into harmony; but there could be no question of a common machinery for the collection of duties. Each party must retain complete liberty in respect of its trade policy towards third States and in the conclusion of commercial treaties with them; but since, in the event of uniform duties being fixed as between Austria-Hungary and Germany, it would be impossible for one to lower them without the consent of the other, it would be necessary for them to act as far as possible on agreed lines in negotiating important commercial treaties with third States. Many other subjects would also have to be discussed, *e.g.*, the development of the actual agreements as to railway and waterway communications, the question of the traffic rates on the railways to the Balkans and that of the navigation of the Danube.

The Austrian Minister President, Dr. Seidler,² expressed his general agreement with these views, but laid stress on the fact that, in establishing the principle of reciprocal preference, the vital interests of production must not be lost sight of. In this respect Austria-Hungary was ill situated as compared with Germany. While the two tariffs, therefore, should not be independent, it was impossible to make them identical. Any attempt to do so would be difficult in the case of agricultural produce and impossible in the case of manufactures, since the State with the higher duties would not be willing to reduce them simply because the other State had a claim to a certain preference. The difficulties thus arising could only be overcome by discussion in detail. As for the relations with third States, each of the two parties should preserve its full independence, but this would not exclude agreement to act together in each case as it arose.

The Hungarian Minister of Finance, Dr. Gratz, also declared in favor of the principle of reciprocal preference. He said, however, that a treaty on this basis could only be concluded (1) if it were proved to be reconcilable with the economic interests of Austria-Hungary, (2) if it did not "throw the independence of Austria-Hungary into the shade" as compared with Germany, and (3) if it did not contain any "hostile sharpness" directed against other States. He considered, moreover, that the scope of the German program should

² Ritter Ernst von Seidler succeeded Count Clam-Martinitz as Minister President on 23rd June 1917. Ed.

be extended. There was, for instance, the question of the German tax imposed on coal exported to Austria-Hungary, which weighed heavily on the industries of the Monarchy. Hungary also laid stress on the conclusion of a Veterinary Convention, containing the same terms as those embodied in the *Ausgleich*, in order to prevent veterinary police precautions being made the excuse for politico-commercial action. There should also be an agreement on questions of exchange.

A discussion followed as to the States which should ultimately be admitted to the benefits of the preferential system. Herr Johannes declared that opinion in Germany was, for the present at least, against the admission of Switzerland and the Scandinavian countries. The case of the Balkan States, and especially of Bulgaria, was different, since the question of the free importation of grain from the Balkans was of the utmost importance. The whole matter, however, must be left over for further discussion.

The meeting ended by passing a resolution fixing the 23rd July for the assembly of the Commission charged with the duty of working out some practicable plan.

CHAPTER VI

THE SITTINGS OF THE COMMISSION AT VIENNA

THE Commission began its sessions at Vienna on 23rd July 1917. A discordant note was struck at the very first meeting. The German Under-secretary of State, Dr. Richter, who presided, put forward in his opening speech a proposal which went much further than anything yet suggested by Germany. Since the question of an economic *rapprochement* had been first mooted, he said, conditions had fundamentally changed. In the spring of 1916 it was new and had to be approached tentatively and cautiously. Since then, however, the conviction of its necessity had become "the common property" of both the Governments and the peoples. At the end of the War the Powers of the Entente would open an acute economic war against the Central Powers, and in order to meet this the Central Powers must conclude an economic treaty which, both to outside countries and to their own peoples, should bear the unmistakable marks of representing a union closer than that effected by a mere Trade and Customs Treaty.

This could not be "a full Customs Union," since this would mean the surrender of their sovereignty by the contracting States. On the other hand, the setting up of a system of reciprocal preference between them would inevitably be regarded by other States as a violation of the right to most-favored-nation treatment guaranteed them under existing treaties, and would lead even neutral countries to join in a tariff war against the Central Powers. Instead of establishing a preferential system, then, he proposed that Austria-Hungary and Germany should, as sovereign Powers, agree to assimilate, as far as possible, all their laws dealing with trade and communications, with the regulation of health and of food supplies, with veterinary police, with social policy, and with industrial or literary property. They should further agree to impose the same duties on all foreign goods, and at the same time to abolish, as far as possible, all duties on goods passing between the two countries, Germany being willing to establish complete free trade between them. Thus, and thus only, he urged, would a Central European economic area be created, so powerful and so rich in productive resources that other States and

combinations of States would, in their own interests, be forced to come to terms with it. Thus, too, they would be prevented from using the principle of most-favored-nation treatment as a pretext for refusing to conclude commercial treaties with the Central Powers.

Negative Attitude of the Austro-Hungarian Negotiators.

The Austro-Hungarian reply to this was made at the next session of the Commission. Herr Ippen, chairman of the Austro-Hungarian delegation, pointed out that the German proposals with regard to the duties on goods passing between the two countries far exceeded anything that had been agreed upon. Austria-Hungary agreed that the common aim was the establishment of an economic agreement of a peculiar kind, exceeding the limits of an ordinary commercial treaty, but held that this agreement must be based on the principles of international law and could not, therefore, assume the character of a Customs Union. It was agreed that any arrangement to be arrived at must embrace all the laws and regulations governing trade and communications on either side, and that no excuse must be given to other States to take up a hostile attitude towards the combination. Austria-Hungary did not, however, think it expedient to commit herself to any hard-and-fast system before examining in detail into the effect any system suggested might have upon particular industries. For this reason it was impossible to agree with Dr. Richter's proposal for free trade between the two Empires, as a condition precedent to setting up identical tariffs against foreign imports. The Austro-Hungarian view was that the question of reciprocal preferences between the two States should be settled before any attempt was made to regulate their relations to outside Powers.

It was agreed that this difference of opinion should not interrupt the discussions on the details of the problem, which continued until the 4th August. In these the attitude of the German negotiators was hardly consistent with their advocacy of a yet closer economic association. Of agricultural produce they agreed, indeed, to admit wheat and rye, fruit and vegetables, as well as cattle, free; in the case of barley, however, they offered only a diminution, and in that of malt the maintenance of the existing duty, which would actually have meant increased protection for the German malt industry. In the case of flour, too, the German protective duty was not to be

altered in proportion to that on grain. The German duties on wooden articles and lumber were only slightly moderated. Austria-Hungary offered to abolish the duties on glassware, to halve those on woollens, and to reduce those on ironware by an average of 25 per cent, to which the Germans replied by consenting to reduce their equivalent duties in the same proportions. In general, however, in these first negotiations the Germans displayed little disposition to concede anything. This was shown by their insistence on maintaining protective duties on the most important Austro-Hungarian exports, and by their conceding in the case of manufactured articles such as ironware (in which Germany had, as compared with Austria-Hungary, a large export trade and scarcely any imports) not free trade but only diminutions of duties which, though equal in percentage to those conceded by Austria-Hungary, were absolutely less.

CHAPTER VII

SITTINGS OF THE COMMISSION AT BUDAPEST

Increased Divergence of Views.

ON 18th September 1917, the Austro-Hungarian and German delegates met again at Budapest, in order to discuss the details of the tariffs and to bring the duties imposed by the two Empires on foreign goods and on each other's into such harmony as would make an economic association possible. The meeting at Vienna, which had dealt as it were experimentally with only one class of goods, had led to but poor results. The outcome of the Budapest meeting, at which it was proposed to review the whole of the tariffs, was no more promising.

The Austro-Hungarians maintained firmly that the greater number of Austrian industries could not do without protection against German competition, and that the most that could be conceded was a lowering of the duties as against Germany. The Germans countered by insisting on keeping the duties on goods imported from Austria-Hungary even in the numerous cases in which there could be no question of German industries being imperiled by Austrian competition. No concessions of any value, moreover, were made to the most important Austrian exports. The German representatives declared at the very outset that they could give no assurances as to Austro-Hungarian petroleum products, and that they could not dispense with the duties on timber. The Austro-Hungarians would concede free importation to only certain aniline dyes. Their demand for free trade in linen and hemp yarn, products in which both Empires were equally susceptible to competition, was rejected by the Germans, because Germany imported more such yarns from, than she exported to, Austria-Hungary. Then, too, when the duties on barley, malt, and meal demanded by the Germans at the Vienna session were adhered to by them, the Austro-Hungarians demonstratively conceded free trade in these products so far as they themselves were concerned. In short, it was clear that if the negotiations continued, the parties would not be drawn closer together, but driven further apart.

This was frankly recognized at the session in which the negotia-

tions were provisionally broken off. Dr. Gratz, representing the Austro-Hungarian Ministry of Foreign Affairs, who presided, pointed out that the original terms of reference to the Commission were to inquire whether the suggested system of reciprocal preference would really be compatible with the economic interests of the two Empires. The course of the negotiations hitherto had made it impossible to answer this question in the affirmative. Instead of extending the principle of reciprocal preference over as wide a field as would be consistent with the protection of important productive interests, a spirit of petty chaffering had been displayed which promised ill for the outcome of the negotiations. Duties had been declared on articles which could not possibly seriously compete with those of the importing country. In many cases, indeed, the preference aimed at had only been achieved by screwing up the duties, in order to be able to keep the present, in many cases prohibitive, duties in force. Such proceedings could only end, at best, in a caricature of a treaty, which would lead to all the disadvantages of an economic *rapprochement*—a lessened protection for production and difficulties with third States—without suggesting, even in shadowy outline, the great advantage sought, namely, the creation of a great Central European economic area. It was well, therefore, that the negotiations should be adjourned. The delegates should spend the interval in consulting their respective Governments, to see whether a way could not be found to realize the fundamental principle of the *rapprochement*: a drawing together in all those spheres in which there were no essential interests to be protected.

Herr Johannes, chairman of the German delegation, agreed that wide views should be taken. But, in practice, wide views had less to say in these matters than the eventual resistance of the interests affected. The Germans were under the impression that their offers in the matter of agrarian produce, and especially the free importation of grain, represented a very great concession, and no easy one to make, since it was strenuously opposed by the agrarian interests. But, if it was to be maintained, Austria-Hungary must make concessions in her turn; she must not insist on taking each section of the tariff separately, but must give weight to this concession in revising all its sections. Germany was prepared to concede free trade in all manufactured articles, with few exceptions. Austria-Hungary was afraid to follow suit. But, this being the case, she had no

right to suggest that she should retain her protective duties, and that Germany, as economically the stronger, should abandon hers. This was the principal cause of dissension. It would be impossible to lay before the German public a treaty under which Austria-Hungary retained her protective tariff almost unaltered, while Germany abolished all duties on Austro-Hungarian manufactures.

Dr. Schüller, representing the Austrian Ministry of Commerce, replied to this. There was no failure on the part of Austria-Hungary, he said, to recognize the necessity for taking the concessions in the industrial and agrarian spheres into consideration together; but, in doing so, the immense excess of German manufactures imported into Austria-Hungary over those of Austria-Hungary imported into Germany must not be lost sight of, for in this lay a main difficulty in the way of the establishment of reciprocal preference. The treaty, in short, must be made industrially possible for Austria-Hungary. In spite of her need for protection, Austria-Hungary had agreed to diminutions of duties far exceeding those in the last commercial treaty; and for this she ought to gain the more credit since, during the last ten years, she had suffered increasingly from German competition and, since the War, also from the great rise in prices, which had deprived the duties of their value and of their effectiveness for purposes of protection. It must be remembered, too, that Austria-Hungary ran by far the greater risk in entering into any general trade relations, since the agricultural industries of Austria-Hungary could never be dangerous to Germany, whereas the manufacturing industries of Germany might easily become a danger to those of Austria and Hungary. In adjourning the negotiations, the fundamental idea should be that each side should unreservedly state the extreme limits of concession to which it could go without essential damage to its own interests.

To this both sides agreed. The President was thus in a position to close the discussion by laying down that the work should be continued on the principle of furthering the economic development of both sides by removing all superfluous barriers to their reciprocal intercourse. It was, he said, also agreed that the results of the negotiations must be judged as a whole, and not only as they affected certain classes of goods or tariff numbers. It was also agreed that the points already settled did not warrant the opinion that these fundamental ideas had in any sufficient measure been realized. The

divergence of the respective points of view was due to a difference of opinion as to which of the parties had been least inclined to make concessions.

Negotiations on Matters of Detail.

The negotiations broken off on 12th October were resumed at Vienna between 5th November and 5th December. The remaining classes of the tariff were now discussed; but the discussion was largely mechanical, as there was no belief that an agreement could be reached. Other more general subjects were also debated; but the only outcome of value was the draft of a Customs Law, drawn up by both sides in collaboration, which was to be put in force in both Austria-Hungary and Germany.

On 25th October a special commission met in Vienna for the purpose of preparing the railway agreements to be included in the economic treaty.¹ In this question of the railways Germany was the petitioning, Austria-Hungary the conceding party. A large part of the German exports to the Balkans passed through Austria-Hungary, so that Germany had a considerable interest in a reduction of the rates paid on her goods in transit over the Austrian and Hungarian railways and in receiving other facilities, while of Austro-Hungarian exports only a small part passed over German railways. This being the situation, the Austrian policy was to delay coming to any agreement as to railway tariffs until some idea could be formed as to the provisions of the economic treaty. The project of agreement submitted by the Germans proposed that both States should guarantee to the other party the same treatment for its goods transported in the same direction, and over the same length of line, as that accorded to their own nationals; it also suggested reciprocal parity and the drawing up of a direct tariff for persons and goods. This project was exhaustively discussed; but in the end certain matters of detail were still left open. Germany also expressed a desire to be admitted as a party to the Railway Convention between Austria-Hungary, Serbia, Bulgaria, and Turkey, signed on 9th May 1883 (the so-called *convention à quatre*), which contained certain valuable provisions. This desire was in so far acceded to that Austria-Hungary undertook to use her good offices with the

¹ A printed *Résumé* of its proceedings, drawn up by Ministerialrat Dr. von Boschan, is in the Vienna Archives.

other signatory States in order to secure their consent to the admission of Germany.

The negotiations for a new Veterinary Convention had no better success. In Austria-Hungary there had long been complaints that Germany had used the pretext of veterinary and health precautions to hamper the importation from Austria-Hungary not only of livestock, but of meat (German Meat Inspection Law), and the attempt was made, in the Austro-Hungarian draft of a new Diseases of Animals Convention, to make this procedure impossible in the future. This was, however, rejected by Germany, since it did not allow the preventive prohibition of the importation of cattle and, generally, interfered with the arrangements which in Germany were considered necessary in order to guard against the introduction from abroad of the foot and mouth disease. Further attempts to secure an agreement on this matter, and on the importation of meat, were for the time being equally fruitless.

CHAPTER VIII

NEGOTIATIONS AT BREST-LITOVSK AND BUKHAREST

The Polish Question.

WHEN, on 5th December 1917, the discussions in the Commission closed it was generally felt that the task of achieving an economic alliance between the Central Powers was more difficult than had first been supposed. Each side laid the blame on the other, and the question played an essential part in the numerous political conversations conducted at that time between Austria-Hungary and Germany on certain burning political questions, notably the Polish Question.

A solution of this problem was then under discussion, by which Poland would have been united with Galicia and brought into close relations with Austria-Hungary—the so-called Austro-Polish solution. In the very first exchange of notes about the economic *rapprochement* Germany had suggested that she might compensate Austria-Hungary for any sacrifices this might entail for her by waiving her own claims to Poland. The suggestion had, however, been rejected, as it was felt that the economic issues ought not to be confused with others purely political. Germany, which at this time was prepared to accept the Austro-Polish solution, now reverted to her original proposal. A handle for this was given, more especially, by the question what the position of Poland would be in the matter of international trade were she united with Austria-Hungary under one form or another. On the German side it was pointed out as indisputable that, in the event of a union of Poland with Austria-Hungary in a single customs area, a situation would be created in which Austrian manufactures would be imported free into Poland while German manufactured articles would be subject to the Austrian import duties. In order to avert this danger, Germany made fresh efforts to persuade Austria-Hungary to join in creating a great, uniform Austro-Hungarian and German economic area, and constantly pressed this as the condition *sine qua non* of her consent to the Austro-Polish solution.

To these persistent efforts to combine the economic with a political

issue the Austro-Hungarian economic experts as persistently replied that the difficulties and disadvantages which would accrue to German trade and trade policy from the Austro-Polish solution had been greatly exaggerated. For Germany it would represent in the future nothing but an improvement on the *status quo ante* if, instead of the high Russian protective tariff, her exports to Poland had to surmount only the low Austro-Hungarian preferential duties. It would also be possible, though by no means desirable, to do something by way of requiring certificates of origin. Austrian statesmen, on the other hand, pointed out in their political communications that the preferential relation which Austria-Hungary was prepared to open up to the German Empire was in itself a concession so considerable as completely to counterbalance the German assent to the Austro-Polish solution.

Intervention of the Ministers of Foreign Affairs.

At this point the German and Austro-Hungarian Foreign Ministers intervened. Count Czernin and Herr von Kühlmann were both present at Brest-Litovsk, where the peace negotiations with Russia had been opened, and on the eve of Christmas 1917 they talked over the question of the economic alliance between the two Central Powers, and ended by agreeing that the negotiations dropped on 5th December should be resumed as soon as possible, and that everything should be done to bridge over the differences which had stood in the way of their success. In the course of this conversation the old grievances on both sides were again put forward and the old arguments advanced. The Austro-Hungarian attitude was, however, more clearly defined in the answer given by Count Czernin to Herr von Kühlmann's question, as to what form Austria-Hungary had in mind for the future economic relations with Germany. Count Czernin replied that Germany must definitely drop the idea, still apparently widespread there, that the best thing to do would be to create a full Customs Union or something approximating to it. Such a Customs Union would not obtain a majority in either the Austrian or the Hungarian Parliament. Of the 1,300 dutiable articles in the new tariff Austria-Hungary would be able to abolish the duties on some 700, Germany at the very least on 1,000, which would give 1,700 exemptions from duties and only 900 items on which duties were imposed. This would certainly be a treaty *sui generis*, which

could well be defended against such difficulties arising out of the principle of most-favored-nation treatment as other States might raise. Kühlmann said that there was something in this, but that the details of the tariffs must be fixed beforehand, and soon. This Czernin declared to be impossible. In connection with the Polish Question, Kühlmann stated with emphasis that in no case must there be any discrimination against German trade in Poland. The German Government, he said, made this a *sine qua non* of their agreement to the Austro-Polish solution. It would therefore be expedient so to arrange the economic relations between the two Empires that no difficulties would arise in this connection.

Progress in the Negotiations.

At Brest-Litovsk Herr von Kühlmann had informed Count Czernin that he had decided to entrust the conduct of the future negotiations on the proposed treaty to Herr von Körner, who in matters concerned with commercial policy was reputed to be the most expert negotiator in Germany. This gentleman, accompanied by Herr von Stockhammern, a councillor of legation, arrived in Vienna on 1st January 1918, in order to effect an exchange of views on the subject of the resumption of the negotiations. In the conversations that followed Austria-Hungary was represented by Dr. Wekerle, the Hungarian Minister President, Freiherr von Wieser, Austrian Minister of Commerce, Herr Riedl and Dr. Schüller, departmental chiefs in the Ministry of Commerce, and Dr. Gratz, representing the common Ministry of Foreign Affairs.

Herr von Körner began by proposing that free trade between the two Empires should be accepted as the basis of the treaty, limited only by the provisional maintenance of a restricted number of duties which, moreover, would not be enumerated in the treaty itself, but in an annex to it. He also suggested that a comparatively early date should at once be fixed for the entire abolition of the duties and the creation of a complete Customs Union. The Austro-Hungarian reply to this was that any decision on the question whether it would or would not be possible to accept the principle of free trade, with certain exceptions, must be postponed pending the conclusion of the special negotiations, as only then would it be possible to form an idea of how far and in what manner an economic *rapprochement* would be practicable. As for fixing a date for the

abolition of all duties, this could not be accepted. Dr. Schüller, however, submitted a formula according to which the duties were to be subject to revision every five years and it was to be agreed that, at the end of the first five years, the preferential duties considered necessary by the one side or the other should be reduced by less than 50 per cent of the amount of the duties levied on similar classes of goods imported from third States.

In spite of the continued differences of opinion revealed in these conversations, this conference marked an important stage in the advance of the negotiations. It showed that all three Governments were firmly determined to do everything possible to make them a success.

The Peace Negotiations at Brest-Litovsk and Bukharest.

The resumption of these negotiations was, however, delayed owing to the time and attention of the Governments being now fully occupied with the peace negotiations at Brest-Litovsk and, later, at Bukharest. In these negotiations agreements had to be reached with third States, under which they would renounce any claim, based on the principle of most-favored-nation treatment, to share in the benefits conferred on each other by Austria-Hungary and Germany by their system of reciprocal preference.

This subject was first raised in a conversation between the German and Austro-Hungarian expert economic referees and the Russian peace delegates Joffe and Pokrovski, on 27th December 1917, and the latter were easily persuaded to agree to a clause limiting the principle of most-favored-nation treatment in the sense desired. A similar clause was also introduced into the first treaty of peace concluded by the Central Powers, that with the Ukraine, which was signed on 9th February 1918. This clause was reciprocal in form, and ran as follows:

In the economic intercourse between the Customs Treaty areas of the two States of the Austro-Hungarian Monarchy on the one part and the Ukrainian People's Republic on the other part the Ukrainian People's Republic will make no claim to share in the preferential treatment accorded by Austria-Hungary to Germany or to any other country bound to her by a Customs Alliance, whether such country borders immediately upon Austria-Hungary or mediately through another country united with her or with Germany by a Customs Alliance.

Colonies, foreign possessions and protectorates are in this respect placed upon the same footing as the Mother Country.

Austria-Hungary makes no claim to share in the preferential treatment which the Ukrainian People's Republic concedes to another country bound to it by a Customs Alliance, whether such country borders upon it immediately or mediately through another country bound to it by a Customs Alliance, or to the colonies, foreign possessions and protectorates of any country bound to it by a Customs Alliance.

Similar provisions were contained in the treaty between Germany and the Ukraine (Art. VII. Section IV. A).

The reciprocal form of these provisions expressed the intention of the Central Powers to regard the treaty of economic association at which they were aiming, not as a fighting organization for aggressive purposes, but merely as the creation of a large economic area which should immensely increase their own productive capacity. There was no question of opposing similar efforts on the part of other nations. Even in the Russian treaty, though the Russians had declared their readiness to sign anything laid before them, this clause appears in the same reciprocal form.

Meanwhile the preliminaries of peace with Rumania were also being settled. The question arose, in connection with these, whether Rumania should or should not be included in the proposed economic alliance, and on this point opinions were divided. Austria was unconditionally in favor of it; Hungary opposed it through fear of Rumanian competition in agrarian produce. Germany saw both advantages and disadvantages, and her attitude was indifferent. In view of this clash of opinions it was decided, at a meeting of the Customs and Trade Conference held in Vienna on the 31st December 1917, to seek a solution by introducing into the peace treaty a clause under which Rumania would bind herself to enter the projected economic alliance between Germany and Austria-Hungary, if required by Austria-Hungary to do so. Immediately before the departure of the peace delegation to Bukharest, indeed, an attempt was made to persuade Hungary to allow Rumania to join the alliance unconditionally, if she wished to do so. Conversations to this end were held in Budapest, but on 8th March the negotiators at Bukharest were informed that the Hungarian Government definitively rejected this idea. The provisional formula agreed upon by the Customs and Trade Conference on 31st De-

cember therefore came to the front again, and this was agreed to by Hungary on 2nd May. The question of including it in the treaty with Rumania was not, however, raised at Bukharest; and all that was done was to sign certain agreements, by which Rumania undertook, if invited to enter the Central European economic alliance, to enter into negotiations to this end under conditions yet to be determined.

The Rumanian plenipotentiaries, on the other hand, made not the slightest objection to the inclusion in the treaty of the clause limiting the application of the principle of most-favored-nation treatment. The same clause, it may be added for the sake of completeness, was included in the Peace Treaty concluded between Austria-Hungary and Finland at Vienna on 29th May.

CHAPTER IX

FINAL NEGOTIATIONS AT SALZBURG

The Spa Agreement.

THE idea of a closer economic relation between Austria-Hungary and Germany was too intimately bound up with political issues of the first importance to be allowed to drop, and immediately after the conclusion of the peace conferences at Bukharest it once more became the subject of negotiation. It had, indeed, been included in the so-called Agreement of Spa among the subjects scheduled for discussion between the two Governments. In the Spa Agreement the problem was defined as follows:

Conclusion of a Customs and Economic Alliance between Austria-Hungary and Germany and gradual development with the object of paving the way to complete free trade between the two treaty-making Powers.

The Customs and Trade Alliance shall have no sort of aggressive character as against other States and shall place no obstacles in the way of friendly trade relations with them.

The object of the agreements reached was here defined—by Austria-Hungary for the first time—as the abolition of all customs duties between Austria-Hungary and Germany. The sense of this agreement was, however, immediately afterwards somewhat limited by a *note verbale* of the Austro-Hungarian Ministry of Foreign Affairs, in which the standpoint of the Monarchy was thus defined:

In the sense of the Spa Agreement the program of the forthcoming conferences shall be that, conditional on a satisfactory solution of the Polish Question, efforts shall be made to establish close economic relations between Germany and Austria-Hungary whereby the principle must be upheld of maintaining the duties on goods imported from the one into the other in so far as economic conditions make this absolutely necessary, with the object of gradually paving the way to complete free trade between the treaty-making Powers. The examination into the question, whether the abolition of all duties shall or can be carried out during the period covered by the Customs and Economic Alliance by the projected revision every five years, shall also be reserved for the forthcoming negotiations.

The Commission Meets at Salzburg.

This program was vague enough to give considerable trouble to those charged with the duty of elaborating it, for the formula it presented disguised rather than bridged over the differences between the two sides. The international commissioners, however, who began their conferences at Salzburg on 9th July 1918, dealt with the questions at issue on broad lines, and so succeeded in overcoming the difficulties which stood in the way of an agreement.¹ The negotiations fell into two parts: the establishment of the general bases for the future economic relations between the two Empires and the arrangement as uniformly as possible of their respective tariffs on imports from third States and of the intermediary duties, *i.e.*, duties imposed on goods passing from one Empire to the other (*Zwischenzölle*).

Intermediary Duties, Tariff Legislation, and Administration.

Opinion was now united as to the conclusion of a Customs and Trade Alliance and also, for the first time, it was agreed that the ultimate object of this alliance should be the establishment of complete free trade between the two Empires. The chief difference lay in the fact that, while Germany wanted free trade at once in all articles, with few exceptions, Austria-Hungary insisted on the duties being retained, in her own case, on several hundred articles of which the production seemed to her to be in absolute need of protection against German competition. After much discussion, it was agreed that the intermediary duties "could be provisionally maintained in so far as they are absolutely necessary for the protection of essential producing interests." The measure and manner in which this formula was to be applied formed the chief subject of discussion when the details of the tariff came to be negotiated.

A further advance was made when the Germans abandoned the position that every concession made by the one party must be balanced by a similar concession made by the other, and accepted the principle, which Austria-Hungary had throughout maintained, that

¹ A large number of German, Austrian, and Hungarian officials took part in the negotiations as delegates, and these were assisted by numerous experts. The chiefs of the various delegations were Herr von Körner for Germany, Dr. Gratz for the Austro-Hungarian Ministry of Foreign Affairs, Dr. Schüller for Austria, and Baron Wimmersperg for Hungary.

in fixing the tariff on goods passing between the two States the question of whether a concession on the one side was or was not balanced by one on the other side was not to be taken into consideration, but that each was to go as far as it could go without imperiling important branches of its production.

There was division of opinion also on the question of the abolition of the intermediary duties. The Germans wanted this done within fifteen years at most; the Austro-Hungarians would not bind themselves to anything more than a revision of the tariff at the end of five years. The matter was compromised by the adoption of a somewhat detailed Article of which the sense was that the intermediary duties were to be revised every five years in the direction of "the lowering of the general *niveau*."

It was agreed that there could be no question of a common Customs Parliament² or of common Customs officials. These were impossible for political reasons; and it was pointed out that they did not exist even inside the Austro-Hungarian Monarchy. It was decided, however, that the Customs laws and administration in both Empires should be assimilated, steps towards which had already been taken in the Customs Law agreed upon and in the uniform tariff schedule. In order to ensure the uniform carrying out of the system agreed upon, permanent conferences were to be established, to supervise the application of the tariff and of the Customs regulations.

The question of the relation of "external" duties (*i.e.*, those on imports from third States into either Empire) to intermediary duties also presented technical difficulties. Matters had to be so arranged that it would be impossible to evade the external duties of one of the parties by importing goods through the territories of the other. It was clear from the outset that the external duties on all goods not subject to intermediary duties must be fixed at the same rate by both parties; for the higher duty would only be on

² In 1867 a treaty was concluded between the North German Confederation and the South German States, by which it was agreed that all questions of Customs should be settled by the Federal Council (*Bundesrat*) and the Federal Diet (*Bundestag*) and that for the consideration of such questions the Southern States were to send representatives to Berlin. Thus was constituted a Customs Parliament (*Zollparlament*) representing all the States of the former German Confederation except Austria, W. A. P.

paper, since all goods would be imported into the State whose duties were the lower. It was therefore agreed that, in these cases, the external duties could only be changed with the consent of both parties to the treaty. It was otherwise with goods subject to intermediary duties. In the case of these the external duties need not be fixed at the same level, and it would be open to the State protected by an intermediary duty to lower the external duty on any article thus protected without consulting the other party to the treaty—which would ensure greater freedom of action in negotiating commercial treaties with third States. This too, however, is subject to important limitations, for the reduction of an external duty would lessen the preference enjoyed by the other party, owing to the difference between the external and the intermediary duties. It was therefore decided that any lowering of an external duty must at once be accompanied by an equivalent lowering of the intermediary duty. If Austria-Hungary, *e.g.*, set up against foreign countries a duty of 100 and against Germany an intermediary duty of 60, thus guaranteeing a preference of 40 to German goods, she may reduce the external duty to 70, but must at the same time reduce the intermediary duty to 30.

The tariff had to be so constructed, moreover, that the amounts of the lower external duty and of the intermediary duty added together would not be lower than the higher external duty, since in the contrary case the latter would be evaded by indirect importation. If the Austro-Hungarian external duty is 100, the German 60, the Austro-Hungarian intermediary duty cannot be lower than 40. If, then, Germany reduced her external duty to 50, Austria-Hungary must either increase her intermediary duty by 10 or reduce her external duty by 10. It was, therefore, declared that in such cases no action could be taken without mutual agreement.

Important material for the construction of a uniform economic area was also to be sought in the interchange of partly manufactured goods. These were, so far as possible, to be admitted free by both parties, and no duties were to be levied on the return of the finished articles. For any such wares as could not be admitted free the protective duties, as between the two parties, were to be lower than those levied on similar wares imported from third States. If, for instance, woven silk materials were sent from Austria-Hungary to Germany to be dyed, they were to be admitted there free of duty

and to be readmitted to Austria-Hungary also free of duty, or at least on payment of a duty lower than that imposed for the protection of the Austro-Hungarian dyeing industry against the competition of third States.

In the case of the duties on consumption, the principle was laid down that these were to be assigned to the party on whose territory the taxed articles were consumed. For this purpose the duties collected on such articles exported from one Empire into the other were to be handed over to the importing State. In this matter the fact that these duties differed, both in their amount and incidence, in the two States caused difficulties; but it was hoped to assimilate them as soon as possible. Germany agreed that even the German coal tax, which had weighed heavily on Austro-Hungarian consumers, should be treated as a consumption duty and that the amount levied on the coal exported to Austria-Hungary should be handed over to her.

Austria-Hungary wished also to include financial questions in the negotiations; for she was looking to help from Germany in the liquidation of her war debts, for the supply of raw materials, and in restoring the value of her currency. At Salzburg, however, she could obtain nothing more than the assurance that all these matters must be settled "inside the frame of the negotiations on the Customs and Trade Alliance." It was agreed that this Alliance should be supplemented by bringing the legislation on economic and social matters in both Empires into harmony, which it was believed would do much to forward it. As regards railways and navigation, all that was done was to suggest a future agreement, of which the object would be to facilitate intercourse on both sides as far as possible.

External Trade Policy.

In the matter of trade policy towards third States both parties to the negotiations were opposed to any mutually binding engagements of a too far-reaching nature, and in favor of maintaining independence of action as far as possible. In Germany there was fear of arousing the opposition of the exporters, who saw a menace to their interests in too intimate an understanding with Austria-Hungary. In Austria-Hungary, on the other hand, there was anxiety to avoid all appearance of the Monarchy being towed in the wake of Germany. Neither side, therefore, could make up its mind to propose that external trade policy should be conducted in common, and the

only thing that was done was to agree upon certain vague formulae providing that the two Governments should remain permanently in touch and, from time to time, come to agreements "subject to the maintenance of the freedom of action of both the treaty-making parties in matters of trade policy." The negotiators saw clearly, none the less, that the obligations arising out of the Customs agreements would make it impossible to conduct external trade policy otherwise than in common.

With regard to the attitude of the Customs Alliance to other States, opinion was unanimous that there must be no continuance of the economic war, and that the friendliest possible trade relations must be established with enemy as well as with neutral States. No agreement was reached, however, as to the possibility of extending the Customs Alliance so as to embrace other States. The intention to invite the adhesion of other States, and to widen the circle as much as possible, was indeed there; but, in view of the peculiarity of the whole construction and its initial complication, the technical problem of admitting new members was by no means easy to solve. Moreover, so far as the Balkan States were concerned, Hungary refused to consent to their admission, as she feared the competition of some of their agrarian products and also the lessening of the need for the importation of foodstuffs, and the consequent ineffectiveness of the protective duties on agricultural produce. The German Government was also in doubt as to its own attitude; and this important matter, therefore, was not dealt with in the agreements.

These agreements were drafted in a formal document, which was to serve as the basis of the forthcoming treaty. In addition to the provisions already indicated, this draft contained two others of importance:

All disputes arising out of the treaty were to be settled by a special court. This was to consist of five members: two for each party to the treaty, and a president who was to belong to one or other of the two parties. Should there be disagreement as to the person of the president, each of the treaty-making parties was to nominate two suitable persons from among the nationals of the other party, and the decision among the four thus nominated was to be made by lot. The president was not to be bound by government instructions.

In order to preserve the treaty from the necessity of alteration owing to changed conditions, it was decided to include in it, as far

as possible, only general basic provisions. The detailed prescriptions necessary were to be embodied in instructions for its execution, to be agreed to and issued by both the treaty-making parties and only to be altered by their common consent. The treaty was to remain in force for twenty years.³

The Question of Tariffs.

The results of the negotiations on the tariffs can only be stated broadly. As between Germany and Austria-Hungary the tariff on farming and similar produce was fixed as follows:

Free importation of grain and pulse on both sides, except a German duty of 3 marks on barley. Seeds, vegetables, and commercial plants free on both sides, except for a German duty of 12 marks on hops. Flowers and fruit free. German duties of 4.50 marks on malt, and 3 marks on meal. An Austro-Hungarian duty of 8 kronen on starch. Wine, cattle, game, fish, eggs, milk, and other animal products free. Fats and oils, free on the German side, on the Austro-Hungarian side mostly free, but dutiable in the case of oil and margarine. Provisions and luxuries free. Wood and sawn timber free.

Thus, so far as agrarian products were concerned, the agreements almost amounted to a Customs Union; for only a few, if important, intermediary duties were retained, and in no case were these reciprocal. The Austro-Hungarian delegates applied their principle logically, and even in the cases in which the Germans refused to do away with their own duties they declared for the duty-free importation of German produce. To this the German negotiators responded by adopting a like procedure.

Difficulties arose in fixing the external duties on a number of farming products. In the case of many of these the German duties were higher than those fixed in the Austro-Hungarian *Ausgleich*, but in the case of pigs and lard they were lower. Free trade in these products between the two Empires required the equalization of the external duties. Germany, which in this matter was the conceding party, did not want to alter her duties, which were a bone of contention between the Agrarians and their opponents. The Austrian

³ It has not been thought necessary to translate the text of the Salzburg Agreement, as drafted by Herr von Lusensky, as this merely puts into technical form the agreements elsewhere described. It is published in full in the German original of this book (p. 93). W. A. P.

Government was prepared to raise its own duties to the German level, on condition that the intermediary duties were waived and that, in view of the free importation of live-stock conceded by Germany, the provisions of the *Ausgleich* limiting the number of live-stock to be imported from the Balkans should be abrogated. In this way the duties imposed under the new *Ausgleich* on cattle, which had excited great misgivings in Austria, would have been lowered. In Hungary, however, these were regarded as one of the greatest gains achieved, and the Hungarian Government rejected the Austrian proposal. It was thus, in spite of repeated efforts, found impossible to come to any agreement as to the equalization of the German and Austro-Hungarian external duties, and the question of these duties had therefore to be left open at Salzburg.

The agreements in other tariff classes were as follows: Tanning materials, earth, stone, ores, and coal were admitted free by both sides. Soaps and candles free into Germany, while Austria-Hungary put a duty on soaps. Dyes and tanning material extracts free, with certain exceptions (aniline dyes) in the case of Austria-Hungary. Scents and drugs free, except an Austro-Hungarian duty on made-up drugs. Matches and artificial manures free. Chemical products free into Germany, but in certain cases (*e.g.*, sulphuric acid) subject to an intermediary duty in Austria-Hungary.

As regards the agreements affecting other tariff classes, while a considerable advance was made towards the establishment of free trade between the two Empires, the determination of Austria-Hungary to protect her industries against the powerful competition of Germany is clearly apparent in them. Thus, while silk wares were to be imported from Austria-Hungary into Germany free, Austria-Hungary imposed upon those imported from Germany a duty of from 400 to 1,000 kronen, and the same applied to many classes of articles. There was, nevertheless, a considerable list—apart from raw materials, such as stone, ore, and coal—of manufactured articles not subject to duty on either side, *e.g.*, matches, artificial manures, jute and hemp yarns, linen, hats, umbrellas, and ornamental feathers.⁴

⁴ A fuller list will be found in the German original of this book. It has not been thought necessary to give this here, more especially as the utterly changed conditions of Central Europe have deprived the various items of any practical interest. W. A. P.

The Results.

While, then, the German negotiators conceded almost complete free trade and only maintained duties on a few important exports from Austria-Hungary, the Austro-Hungarian delegates established a considerable number of intermediary duties on German exports. This, in fact, corresponded to the economic conditions and the competitive power of the two Empires. There can be no doubt but that, in spite of the apparently disproportionate concessions made by Germany, the greater risk was run by Austria-Hungary, which seriously weakened the protection of her industries against German competition. The Austro-Hungarian negotiators, however, might hope that this risk would be outweighed by the almost complete, and in part one-sided, opening up of the German market, and there can be no doubt that in these negotiations the road to a rational system had been marked out. It was realized, of course, that the last word had not been spoken. Austria-Hungary would have reduced or abolished a few more of her duties; Germany, in those cases where duties had been maintained on both sides, would have let hers fall. The final outcome, to which so near an approach had been made, would have been as follows:

On the German side general free importation of Austro-Hungarian wares, and only very few intermediary duties. In Austria-Hungary free importation in the case of some half of the tariff numbers, for the rest intermediary duties, which would be much lower than the external duties. In the case of no goods reciprocal intermediary duties. That is to say, put shortly: all wares duty free, partly on one side, partly on both sides; the intermediary duties equal to the difference between the external duties.

This formula will be best explained by a practical example. Austria-Hungary levied, for instance, a duty of 300 marks on cotton goods, Germany one of 200 marks. According to the formula Austria-Hungary would have retained as against Germany a duty of 300 marks — 200 marks = 100 marks, and Germany would have admitted Austro-Hungarian cotton goods free. This solution rested on the following considerations. The Austro-Hungarian cotton industry is weaker than the German and demands therefore a transition period of protection. The just measure of this protection would be gauged by the amount by which the Austro-Hungarian duty had

hitherto exceeded the German. This conclusion was based on the assumption, on the whole accurate, that the protective systems of Germany and Austria-Hungary were on the same plane, and that therefore the need for protection of any particular products could be measured by the difference of the duties levied upon them. It followed that Germany had no need of protection for her cotton goods as against Austria-Hungary, but the latter had need of such protection as against Germany, the measure of this need being given by the difference between the higher Austro-Hungarian external duty and the lower German. In these calculations no attention was paid to slight differences in the amount of the duties, or to chance differences not due to the need for protection. In this way it was possible to agree to reciprocal free trade in some half the wares embraced in the Customs tariff.

Thus, in the course of the negotiations there had been crystallized a simple formula which represents a new solution of the problem involved in the economic union of independent States. The problem is how such States can form an economic area, permitting the utmost possible freedom of movement within its limits and a common attitude towards the outside world, without surrendering their sovereign independence and without the ruin of important branches of their respective economic lives. To avoid this, the imperiled industries need for a long transition period protection against the competition of the allied States and also, as against other States, a larger measure of protection than the industries of the allied State. The problem is how to reconcile this with the development of freer intercourse within the alliance and with a common commercial policy. Difficulties arise from the fact that the various external and internal duties are interdependent, and that the alteration of any one duty reacts upon the rest, so that a connection between the duties must be created which works automatically, in order to secure freedom of action in matters of commercial policy and to prevent confusion resulting from every alteration of the tariff. This is the meaning of the agreement reached between Austria-Hungary and Germany. For the carrying out of such a plan there is need of good will on both sides. It has its faults, which are chiefly due to the fact that a general formula based upon broad principles cannot in its application take account of all conditions. Yet such a work cannot be accomplished without laying down such broad principles; for,

otherwise, those engaged in it would become hopelessly enmeshed in a net of particular interests and questions of detail, and would be unable to effect the impression on public opinion necessary to enable them to overcome the forces of obstruction.

Wherever the same problem arises, the outcome of the negotiations between the German Empire and Austria-Hungary will be worth studying. At the present time the economic life of Europe is suffering from the many obstacles placed in the way of trade intercourse. In the midst of these difficulties, however, the belief in the need for freer trade intercourse and larger economic areas remains alive. This need is particularly urgent in central and eastern Europe, where the War has resulted in the creation of numerous new States, which cannot survive without a lively exchange of their products. Yet it is clear from what is being said about the necessity for economic union, that there is no consciousness of the conditions necessary for the effecting of such a union. For this, in addition to equality of currencies and of indirect taxation, the most essential requisite is a workable apparatus for the creation of a uniform tariff and a common commercial policy. Such an apparatus can be created between two States by coöperation in legislation and administration, but this is only possible under special political arrangements, and is always difficult. Between several States such coöperation is impossible, owing to the too great complication of the machinery. The other way is the creation of a Customs Parliament and of common principles for the conduct of economic and financial policy in all more important matters; but this assumes an intimate relation, based upon permanent principles, between the States thus binding themselves. For the knowledge of the necessary conditions governing an economic union between two or more independent States, and of the technically possible solutions of the problems involved, the Austro-Hungarian *Ausgleich* and the economic alliance with the German Empire are of great importance.

The economic treaty between Germany and Austria-Hungary was nearing its completion, and the negotiations at Salzburg were concluded on 11th October 1918. A few weeks later the old order collapsed, and the work lies buried under its ruins.



PART II

THE PEACE NEGOTIATIONS AT BREST-LITOVSK

CHAPTER I

HISTORICAL SETTING OF THE NEGOTIATIONS

THE treaties of peace which, at the beginning of 1918, Germany, Austria-Hungary, Bulgaria, and Turkey concluded with Russia at Brest-Litovsk, and with Rumania at Bukharest, are in several respects of importance for the economic history of the World War. Their immediate importance was in staving off the economic exhaustion of the Central Powers during the last phase of the War, since they broke through the blockade and made possible the importation of food and raw materials from the Eastern States. But beyond this, they have an importance for history, and especially for economic history, as showing the tendencies which the Central Powers—victorious so far as Russia and Rumania were concerned at the time of the conclusion of these treaties—desired as victors to introduce into the economic policy of Europe.

In this latter respect the treaties are a pendant to the treaties of peace concluded in Paris. Twice during the World War peace was made: once by the Central Powers as victors, and once with them when vanquished. If one examines the two groups of treaties, in order to see how the same problems of economic policy are handled in them respectively, one finds that, while opposed to each other in many respects, in many others they agree. The far-reaching differences between them may be in part explained by the fact that, when the treaties of Brest-Litovsk and Bukharest were signed, the victory of the Central Powers was incomplete and that the negotiations with the Eastern States were conducted under pressure of the War which still continued with the Western Powers. For the peace with Russia at least was a dictated peace; there was no consideration for the vanquished shown in the terms of the territorial settlement it imposed, and it would have been no less possible to impose a ruthless solution of the economic questions at issue. That this did not happen shows that the economic provisions of the peace treaties of 1918 were based upon a somewhat new conception of the economic interrelations of the world. Yet in the peace treaties of the Quadruple Alliance there are already visible tendencies similar to those in the treaties later concluded by the Entente. From this it follows that all

the belligerent States were affected by similar aims, and thus it is possible to determine certain typical economic forces of the twentieth century and the typical character of war in our day.

Such a common trait is the endeavor of the victors to use the vanquished countries for the reinforcement of their own economic power. This trait was for centuries familiar, as that which underlay the mercantile wars. It now appears as imperialism, and uses a new, modern technique. Thus, for example, in all the peace treaties of the World War the victors try to secure control of the raw materials of the vanquished countries for as long a time as possible. They demand their delivery under favorable conditions, in one case on credit, in others even without payment, *i.e.*, as a burden on the budget of the vanquished country. Furthermore, they seek to gain influence over important industries by claiming the majority of the shares in companies, setting up monopolies, or occupying industrial areas. Moreover, in spite of gradual modifications in detail, there is everywhere apparent a tendency of the victorious States, in the interests of their own exports, to impose upon the vanquished nations commercial treaties, railway and shipping agreements, and alien control of their harbors and railroads.

Another factor, which increases the interest at least of the treaty concluded by the Central Powers with Russia, is that in this case the contracting parties represented two opposite views of life, both politically and economically. The Central Powers here came into contact with Bolshevism, and that in its original form. Not only the Bolsheviks, but the Socialists of the Ukraine, showed no sort of understanding for the traditional forms of economic intercourse, and at the same time they were unable at once to indicate the new forms which this intercourse should assume according to their principles. Hence the astounding ease with which certain problems were solved which, if the negotiating parties had occupied the same standpoint, would have met with the greatest obstacles. On the other hand, extraordinary difficulties arose in dealing with comparatively simple matters, such as the conclusion of a commercial treaty.

The situation of the Central Powers in 1917, the year preceding the peace treaties, was such as to leave those responsible for their policy little hope of a decisive victory. In Austria-Hungary, under pressure of the blockade, the signs of complete exhaustion increased

from month to month. The attempt made by the Emperor-King Charles, immediately after his accession at the beginning of December 1916, to open negotiations with a view to an agreed peace had broken down. President Wilson's message of 22nd January 1917, indeed, contained certain suggestions which pointed to the possibility of continuing peace activities; but the proclamation of the ruthless submarine war by Germany on 31st January, and the consequent entry of the United States into the War on the side of the Entente, made the situation of the Central Powers still worse. The attempt made by the Emperor Charles, through his brother-in-law Prince Sixtus of Parma, to open negotiations for peace with President Poincaré and M. Briand likewise failed. In the summer of 1917, he caused memoranda to be drawn up by those at the head of the various departments of the economic life of Austria and Hungary on the question of how long it would be possible for the Monarchy to continue the War. These reports were unanimous in urging that peace must be concluded by the end of the year, or at latest by the spring of 1918, as otherwise the exhaustion would be complete and it would be impossible to feed the population.

The sole mitigation of the situation in 1917 was due to the collapse of the Tsarist régime in Russia. Russia had suffered no decisive military defeat; but the defeat of a people may take the form of internal dissolution, as happened in Russia at this time. On 11th March the Revolution made an end of the Tsardom. A month later, on 14th April, Austria-Hungary made overtures for a separate peace to the revolutionary Government in Russia. These, however, were decisively rejected, and it was not till 7th November, when the Bolshevik party under the leadership of Lenin and Trotsky had seized supreme power in Russia, that the prospects of concluding such a peace seemed more favorable. On 10th November the Congress of Russian Soviets demanded the immediate opening of negotiations and the conclusion of an armistice. On the 20th the Russian Government telegraphed its readiness to make peace. On 1st December fighting ceased on the whole Russian front, and negotiations followed at Brest-Litovsk for the conclusion of an armistice. On the 5th an armistice was concluded for ten days, and on the 15th this was extended for another thirty.

In all these circumstances it was very greatly to the interest of the Central Powers to make peace with Russia. In coming to this

decision it was not military considerations that had most weight. The Russian army, demoralized by the Revolution, was now incapable of serious resistance. But, since the line of trenches extending into Poland would in any case have to be held until the conclusion of a general peace, there could be no question of transferring the whole of the troops from the Eastern to the Western front, while the collapse of Russia would have made possible the transference of a large part of them even had no peace been made. It was hoped, indeed, that peace would set free a few more divisions; but it was not any such military effect of the peace, but its political effect, both internal and external, which carried most weight. It was hoped that the Russian peace, by freeing the Central Powers from the vise in which they had been held between the East and West, would incline the Entente to come to terms. At least it was to be expected that Rumania, which could only carry on war if supported on the Russian front, would be forced out of the ranks of the belligerents. The internal effect hoped for, on the other hand, was that a peace imposed by the Central Powers as victors would revive the courage of their peoples and strengthen their will to continue the War until a general peace by agreement should seem feasible. But the decisive motive was neither military nor political, but economic—the absolute necessity for breaking the blockade and gaining access to the rich raw materials of the Eastern States. The position of Germany, indeed, was less unfavorable than that of Austria-Hungary; for in Germany internal order was still maintained and the Government and Army Command had been strengthened in their hope of ultimate victory by the events on the Eastern front. For this reason, during the whole course of the negotiations, Austria-Hungary showed the greatest anxiety to come to terms, while Germany regarded the issue with comparative indifference. This difference of attitude was clearly revealed during the conversations between the two Emperors which took place at Homburg in February 1918. The Emperor Charles took this opportunity of laying stress on the war-weariness and exhaustion of Austria-Hungary, which would make it impossible for him to continue the War much longer. The Emperor William, on the other hand, when asked how long Germany could hold out, replied: “Two or three years.”¹

¹ Telegram to Baron Flotow, Austro-Hungarian Minister for Foreign Affairs.

Russia was no less interested in concluding peace with the Central Powers. The Russian front had collapsed; the army was in dissolution. In all Russia the only public authority was the terror established by the Bolsheviks in the cities. The only part of the front which still maintained itself as such was the southern section under General Sheherbaehov, but there could be no question of his continuing the campaign. Consul-General Hempel, who had been sent to Petersburg to arrange for an exchange of prisoners, reported to the Ministry of Foreign Affairs on conditions in Russia as follows:

"Present conditions in Russia give the impression of a chaos that cannot last. For the time being the power of the present Government does not reach beyond Moscow; it has no telegraphic communication with Siberia, with the Caucasus, Kiev, Odessa, Samara. Railway communication from Moscow extends only as far as Kursk; after that the line is broken. All classes of the people are possessed by a longing for peace. In view of the general disorganization and of the increasing demobilization, all further participation of Russia in the War seems impossible. Owing to the interruption of communications the position of St. Petersburg in the matter of supplies has changed decidedly for the worse: there is a dearth of bread, coals, and meat. Bread is of much worse quality than with us. A proclamation of the Soviets emphasizes the fact that at the front there is also a lack of the necessaries of life. Here the rise in prices is enormous, and the purchasing power of the ruble has sunk extraordinarily. Thirty rubles have now to be paid for a cab fare which in normal times was 1.20. The prices of all other services and wares show a similar change."

The same experiences awaited the German delegates who, at the beginning of January, were sent by their Government to buy raw materials in Russia. They soon found that the prevailing confusion made it impossible to do anything. The Russian banks were sequestered, the financiers imprisoned, and all business was at a standstill.

Then came the splitting up of the Russian Empire into a number of small republics. In Kiev the popular assembly—the *Rada*—had proclaimed the Ukraine an independent republic, though not at first disinclined to consider its ultimate union with the rest of Russia when reorganized as a federal republic. But as early as the middle of December the Bolshevik delegates seceded from the *Rada*, trans-

ferred themselves to Kharkov and there, with the support of Petersburg, set up an opposition Government. As a result, when the representatives of the Provisional Government of the Ukraine set out for Brest-Litovsk, to take part in the armistice negotiations, they were at first held up by the Russians and only allowed to pass after long hesitation. Then, at the end of December, open hostilities broke out between the Russians and the Ukrainers.

An episode which occurred at Brest-Litovsk on 22nd January 1918 may be cited as characteristic of the uncertainty of conditions in Russia at this time. Among those who presented themselves to the peace delegation of the Central Powers was an ex-lieutenant in the Austro-Hungarian army who had been taken prisoner by the Russians and now suddenly represented himself as the delegate of the "Mohammedan-Caucasian Republic" in course of formation at Baku.

CHAPTER II

BREST-LITOVSK

THE scene of the peace negotiations was fixed at the Russian fortress of Brest-Litovsk, at that time the headquarters of the German Eastern army. The town itself was burnt down and deserted, and contained not a single habitable house. The fortress, however, which lay a mile or so from the town, was comparatively undamaged, and the delegations were lodged in the brick buildings which had formerly served as officers' quarters. At mealtimes, twice a day, all the delegates met in the officers' mess, where the general in command, Prince Leopold of Bavaria, a vigorous man of seventy-three, and the jovial General Hoffmann acted as hosts. At first the Russian representatives also took part in these common meals; but when Trotsky arrived, on 7th January, he brought his own servants with him in order to emphasize the antithesis between the Russian delegates and those of the Central Powers. The delegates of the Ukraine, on the other hand, remained to the last the guests of the officers' mess. The actual negotiations were carried on in a large hall which had once served for dances and theatrical performances.

The principal delegates of the Central Powers were: for Germany, Herr von Kühlmann, the Secretary of State; for Austria-Hungary, Count Czernin, the Minister for Foreign Affairs; for Bulgaria, M. Popoff, Minister of Justice, and M. Radoslavoff, President of the Council of Ministers; for Turkey, Nessimi Bey, Minister for Foreign Affairs, the Ambassador Hakki Pasha, and the Grand Vizier Talaat Bey. The leading part was played by Herr von Kühlmann, clever, intelligent, plausible, and supple, with a perfect mastery of the French language. He faced matters calmly and coolly, perhaps with a touch of fatalism, though his position was rendered very difficult by the hostile and critical attitude of the Army Command, which more than once during the course of the negotiations forced him to threaten his resignation. A striking contrast with his perhaps studied calm was presented by the impatient and emotional Count Czernin, who often had great difficulty in controlling himself, was the only one of the leading statesmen to foresee the coming collapse, and suffered as it were physically from the ever

changing phases of the peace negotiations. The Turkish Grand Vizier, Talaat Bey, had the face of a gipsy, with broad, brutal features and a cynical expression. Hakki Pasha, short and thick-set, with small but intelligent eyes, was ever ready with a clever and sensible remark. Radoslavoff, a patriarchal figure, remained for the most part passive and silent.

The leader of the Russian delegation was Trotsky, a revolutionist by profession. His face was pale and emaciated, his expression gloomy and unhappy, and he was never seen to smile. During the sessions he smoked cigarettes continuously and played with a pencil, without ever looking at anybody. Self-possessed and even aggressive in his manner, he proved himself during the negotiations to be a dialectician of the first order. His understudy was Joffe, a medical doctor.

Among the numerous Russian delegates who remained silent was a woman who had lived long in exile in Siberia as punishment for a political murder. There were also students and soldiers, while a Vice-Admiral and a Colonel of the old régime were present in subordinate positions as experts. The delegation from the Ukraine consisted entirely of young people. Its leader was at first Sevryuk, a young and very self-conscious literary man with a weary expression, then Holubowicz, who during the negotiations was nominated Minister President and so again replaced by Sevryuk. Then there was Lyubinski, who carried his revolutionary heart on his tongue. There was Woldemar, a Lithuanian professor of Latin, quiet and sceptical. There was Ostapenko, a schoolmaster, sharp-witted and meticulous. All alike were without any practical experience whatever and held obstinately to their theories.

The contrast between the diplomatists and officers of the Central Powers and the Russian and Ukrainian revolutionaries was thrown into relief by the background provided by the German headquarters for the first clash of societies so utterly dissimilar.

CHAPTER III

THE BASES OF PEACE

The Conflicting Points of View.

IN spite of the earnest desire for peace which was common to both the parties, it was at first by no means clear how a common basis could be found, in view of the fundamental difference between their respective points of view. A further difficulty was caused by the fact that the Russian delegates refused on principle to conduct any negotiations except at the public plenary sessions, and at once telegraphed to the world at large every word uttered during the discussions. This made it necessary for everyone to exercise the greatest caution, and also made any accommodation between the opposing standpoints uncommonly difficult.

On 22nd December the delegates met for the first time, and the Russian representatives explained the principles on which they wished to found the peace. They demanded a peace without any forcible annexation of territory or any war indemnities, and the recognition of the independence and the right to self-determination of all peoples, including those in Austria-Hungary. The reply of the Central Powers, which was agreed upon on 24th December and handed to the Russians on the following day, characterized the leading sentences of the Russian proposal as a "discussible basis" for a "general just peace." They declared themselves to be ready at once to conclude a general peace without annexations and without indemnities. "If the Russian delegation," the answer ran, "condemns the continuance of the War solely for purposes of conquest, the delegations of the Allies agree with them in this view. They solemnly declare their resolution, without delay to sign a peace which shall end this War on the basis of the conditions stated, which shall do justice in the same manner to all the belligerent Powers without exception. But, if the conditions laid down in the Russian proposal are to be fulfilled, it must be emphatically pointed out that all the Powers, without exception, taking part in the War must within a given time and without any reservation whatever pledge themselves to the most exact observance of the conditions which are binding on all peoples in like manner. For it would not do for the Powers of the

Quadruple Alliance now negotiating with Russia to take up a one-sided position on these conditions, without having any guarantee that Russia's Allies would in their turn recognize and carry out these conditions in the case of the Quadruple Alliance."

The recognition of the Russian program of a peace without annexations and without indemnities was thus at once made subject to an important reservation: namely, that a general peace, embracing all the belligerent States, must be concluded on this basis. On the other hand, in the event of Russia concluding a separate peace, it left the Central Powers an entirely free hand. Later, when they were confronted with Russia alone, this reservation caused certain difficulties in the negotiations about particular questions, but it is equally true that its underlying conception made possible a common basis for the negotiations.

With this reservation must be read the attitude of the Powers of the Quadruple Alliance towards details of the Russian peace program. "It is not the intention of the Allied Governments to annex territories occupied during the War. Provision will be made in the terms of the Peace Treaty as to the troops in the territories temporarily occupied, in so far as no agreement has previously been reached for their withdrawal in particular places." Objections were raised to this last evacuation clause more especially by the Turks, since large territories to the south of the Caucasus were occupied by the Russians, and the Turks would have been glad to have these restored to them. The situation, however, did not admit of any but a bilateral basis for the decisions as to evacuation, and since for military reasons there could be no question of the withdrawal of the Central Powers from the Russian territories occupied by them, the Turkish objection had to be overruled.

The reply to the Russian demand for the independence and self-determination of nations was as follows: "It is not the intention of the Allies to rob of its independence any one of the peoples which have lost their position as independent States during this War. The question of the inclusion in any particular State of the national groups which possess no independent State organization of their own is, from the standpoint of the Powers of the Quadruple Alliance, not one susceptible of international settlement. It must, in any given case, be solved by each State independently in accordance with its Constitution. Similarly, according to the pronouncements

of statesmen of the Quadruple Alliance, the protection of the rights of minorities forms an essential part of the constitutional right of the peoples to self-determination. The Governments of the Allies, moreover, apply this principle everywhere, in so far as it seems practicable." The Central Powers declared themselves ready to agree to a mutual renunciation of indemnities in respect of war costs and war damage, exception being made only in the case of the cost of maintaining prisoners of war and in that of damage done to the civilian population by acts of violence contrary to the Law of Nations. Lastly, reference was made to the colonies, whose right of self-determination Germany was not as yet prepared to recognize.

In spite of the reservation, in the light of which this whole reply had to be read, there were difficulties, it being especially hard to persuade the Bulgarian Government to agree to it. During the discussion of 24th December, when the reply was formulated, M. Popoff demanded the inclusion in it of an explicit statement that the renunciation of annexations did not apply to Bulgaria. When Herr von Kühlmann pointed out to him that this would diminish the value and the moral weight of the declaration, he replied that Bulgaria's object in taking part in the War, proclaimed in two manifestoes, was the liberation of the Bulgarian brethren in the Dobrudja and Macedonia, and that for Bulgaria to renounce all claim to annexations would therefore be for her to renounce her war aim. In these circumstances he felt it necessary to telegraph to Sofia for fresh instructions. This caused considerable delay, and it was not until the evening of the 25th that the reply could be handed to the Russian delegation, the Bulgarian Government having meanwhile agreed to its terms.

On behalf of the Russian delegation, Joffe declared the reply of the Central Powers to be satisfactory, save in the matter of self-determination. It was therefore agreed that it supplied the basis for peace—by which, of course, was meant a general peace—and it was further agreed to suspend the negotiations for ten days, during which Russia was to invite the Entente to take part in them on this basis. This was naturally a mere form; for nobody supposed for a moment that the Entente would agree to negotiate on any such basis.

Discussion of the Principles Involved.

Before the delegations left Brest-Litovsk the principal bases of the peace were discussed in two meetings, on 26th and 27th December. On the question of the resumption of treaty relations, the Russians declared that they would only recognize treaties so far as they contained nothing contrary to the existing conditions in Russia. With the proposal to end the economic war they said they were in complete agreement, since "exceptional laws directed against any State are in any case impossible in the Russia of to-day."

The irreconcilable difference between the whole point of view of the two parties was more clearly revealed in the discussion of the question of the resumption of commercial intercourse. The original German plan had been to secure the renewal of the old commercial treaty for twenty years, but private conversations with the Russians had shown that this had not the slightest chance of being carried through, and it was never brought forward. Instead, Herr von Kühlmann proposed that the old treaty should remain in force pending the negotiation of a new one. In his reply Joffe said that Russia desired the resumption of commercial relations, but that new principles and new conditions now obtained in Russia which made any mere restoration of the old treaty impossible. The Russian delegate Pokrovski elaborated his argument, declaring that the new Russia could not leave in force an agreement concluded "between two groups of tradespeople and capitalists," and that "normal conditions should be restored" pending agreement on a new treaty. Herr von Kühlmann asked what the Russian delegates meant by "normal conditions." Fresh arrangements later were, he said, desired by all parties, but what was to happen meanwhile? Was intercourse to be entirely free? Or was there to be trade regulated by treaty? Pokrovski answered that both these alternatives were open to objection on the part of Russia. It was impossible for her to put the old treaty in force again, while free trade would "hinder the national development," especially in view of the most-favored-nation clause. Joffe suggested that a solution might be found in a carefully planned organization for the exchange of goods. Both possibilities, he said, could be taken into consideration, and the details worked out by a special commission. Kühlmann inquired as to

the attitude of the Russian delegation towards the question of most-favored-nation treatment; to which Joffe replied that Russia would make no objection to Germany and Austria-Hungary not receiving worse treatment than any third State. It was finally decided that Russia was to concede most-favored-nation treatment to the allied Central Powers.

To the resumption of diplomatic relations the Russian delegation agreed. In this connection Pokrovski raised the question of what attitude the Central Powers would assume towards the election of consuls. Herr von Kühlmann asked who were to be the electors and who was to be eligible for election. Pokrovski suggested that the nationals of any particular State in foreign territory should have the right to elect their consuls from among their own number. To which Kühlmann replied, that there was no objection to the Russians putting this principle into practice, but that the Central Powers would keep to the present system of professional consuls.

In regard to the indemnification for damage done to civilians, Kamenev, on the Russian side, declared that the duty of giving compensation for damage done elsewhere than in the war zone must be settled in principle, but that the time and amount of the indemnities could only be fixed when the damage had been proved.

In the question of the restoration of the annulled concessions to foreigners, Kamenev declared that Russia had no wish to take any exceptional measures against foreigners, but that in the event of the carrying through of a general nationalization of certain enterprises, it would be impossible to exclude from it a foreign enterprise established in Russia.

The Russians agreed to the return of captured ships, and there was from the first agreement on the principle of mutual compensation for war damages, including requisitions and contributions.

With regard to civilians who had been interned or deported, it was proposed that these should be sent home free of cost. To this Joffe agreed, but desired also the liberation of those who had suffered for the part taken by them in peace propaganda. Kühlmann answered that there were no such persons in Germany; and Count Czernin, in allusion to the attacks to which he as well as Herr von Kühlmann had been exposed in certain quarters because of their pacific attitude, added: "With us it is only Ministers who are persecuted for peace propaganda."

The discussion of these questions proceeded smoothly enough. It was otherwise, however, when territorial questions were raised. The Central Powers demanded the recognition by Russia of the fact that Poland, Courland, Lithuania and parts of Livonia and Esthonia had already expressed their desire to be separated from Russia and attached to the Central Powers. Joffe replied that Russia could not do this, and that the true opinion in these countries could only be ascertained when they had ceased to be in military occupation. He declared himself willing, however, to agree to the despatch of a commission to inquire into this matter, and thus provided, at least for the time being, a means of circumventing an obstruction which held up the negotiations for weeks. Herr von Kühlmann now went a step further, and asked if the Russian Government would be willing, on certain conditions, to withdraw the Russian troops from those parts of Livonia and Esthonia still occupied by them, in order to give the population an opportunity of effecting a union with their brethren beyond the borders. Joffe replied cautiously that the Russian Government had repeatedly announced its intention of making the exercise by the peoples of their right of self-determination possible without military pressure, and that there could be no doubt that it would apply in the case of Livonia and Esthonia the same principles as those of which it demanded the application in the case of other countries.

With this the general discussion of the principal questions at issue came to an end, and the final session, purely formal and ceremonial, was held on the 28th December. It was felt, of course, that these discussions had left open an immense gulf between the standpoints of the parties on either side, especially in territorial questions. The Central Powers were therefore by no means optimistic as to the prospect of peace.

CHAPTER IV

SEPARATION OF THE UKRAINE FROM RUSSIA

WHEN, on 7th January 1918, the Russian delegation returned to Brest-Litovsk, the situation was in certain important respects changed. The Entente, as was to be expected, had refused to negotiate on the basis agreed upon in December, and the question of a separate peace with Russia therefore now arose. The Central Powers, however, had from the first declared that in such an event they would no longer be bound to adhere to this basis. Moreover, during the few days' interval several things had happened which did not tend to improve the relations between the parties to the negotiations. Trotsky himself now appeared at Brest-Litovsk as the head of the Russian delegates, and at once declared that these would no longer take their meals at the common table, a decision which made all private discussion between the two parties to the negotiation difficult if not impossible. Lastly, the relations between the Russian Government and the *Rada* of the Ukraine had become so strained that the latter felt compelled to take an independent part in the peace negotiations. The Ukrainian delegation was increased from four to seventeen members, who were instructed to obtain the recognition of the independence of the Ukraine and then to negotiate a separate peace without any reference to Russia. They were helped by the growing tension between the Central Powers and the Russians, which led many to doubt whether it would in any case be possible for them to come to terms. In these circumstances the independence of the Ukraine, which would have been recognized in any case, was regarded by the Central Powers as particularly opportune.

At the very beginning of the conference of the 10th January, M. Holubowicz, the leader of the Ukrainian delegation, read a statement in which he pointed out that the appearance of this delegation at Brest-Litovsk was in response to the invitation addressed on Christmas Day to all peoples to take part in the making of peace, and demanded the recognition of the right of the Ukraine to independent representation. His fellow-delegate Lyubinski then read the note in which the Ukraine formally demanded recognition

as an independent State, and handed to the principal representatives of the four Allied Powers a copy of the Declaration of Independence signed by Vinichenko, President of the Ukrainian Republic, and Shulgin, its Minister for Foreign Affairs.

The President, Herr von Kühlmann, thereupon asked Trotsky, who was also present, whether, in view of the Ukrainian Declaration of Independence, he still considered himself competent to act as the representative of all Russia. Trotsky gave no direct answer, but merely said that Russia recognized the right of the Ukraine to self-determination even if this were to involve complete separation from Russia. Kühlmann tried to obtain something more explicit, asking Trotsky whether in his opinion the Ukrainian delegation was subordinate to the Russian or was to be considered an independent factor in the negotiations. Trotsky replied that, since the Ukrainian delegation had claimed to negotiate independently, since Russia had recognized this representation, and since no one had protested against it, the question might be considered as settled. Kühlmann thanked him and said that the attitude of the Central Powers towards the independence of the Ukraine would be declared later. M. Holubowicz now expressed his gratitude for the independent position already assigned to the Ukraine, and begged for a decisive pronouncement that Russia and the Ukraine were in future to be two separate States. Two days later the independence of the Ukraine was solemnly recognized.

Thus was accomplished the separation of the Ukraine from Russia, which was to have an important influence on the further course of the negotiations. The process seemed at first smooth and painless; but this was afterwards found to be an illusion.

CHAPTER V

REOPENING OF THE NEGOTIATIONS WITH RUSSIA

WHEN, on 9th January, the negotiations were resumed, Herr von Kühlmann, in the name of the Central Powers, began by declaring null and void the declarations exchanged between the parties in December, since these had been made conditional on the adhesion of the Entente Powers which, during the ten days' grace asked for by the Russians, had shown no sign of being willing to take part in the negotiations. He rejected a request made by the Russians to transfer the peace negotiations to some neutral place, *e.g.*, Stockholm, declaring it to be the unalterable resolve of the Central Powers to conclude the negotiations at Brest-Litovsk. Count Czernin declared equally decidedly that the negotiations with Russia must now be confined to the question of a separate peace; he demanded the immediate setting up of the commissions for which arrangements had already been made; and Talaat Bey and M. Popoff supported him in the name of Turkey and Bulgaria respectively. Then General Hoffmann joined in. Russian telegraphic messages, he said, had been intercepted which consisted partly of abuse of the Central Powers and partly of incitements to their troops to mutiny; against these he protested as a violation of the spirit of the armistice. In face of this concentrated fire Trotsky maintained absolute silence. When Herr von Kühlmann asked him if he had anything to say, he asked that the sitting might be adjourned in order to enable him to prepare his answer.

He gave this on the following day. As against the complaints of General Hoffmann, he appealed to the principle of the full liberty of agitation. He accepted the views of the Central Powers as to the scene of the negotiations "in order not to wreck the negotiations on a side issue." He declared, finally, that if the Russian delegation remained at Brest, this was only in order to neglect no chance of making peace. They would make a fresh effort to discover whether peace could be made without the violence being done to the Poles, Lithuanians, Letts, Esthonians, and Armenians, to whom the Russians had already conceded the full right of self-determination.

On this and the following day, too, the commissions set to work

on the territorial questions at issue, but without making any progress. The Russians demanded, as a consequence of the right of self-determination, the immediate evacuation of the occupied territories. Germany began by claiming that the expressed views of certain corporations in the occupied territories, documentary evidence of which was presented, should be regarded as proof that this right had already been exercised, and was at most prepared to concede the taking of a sort of plebiscite during the occupation. This led to a complete *impasse*. On 16th January, Trotsky threatened to break off the negotiations, since it was useless to continue them. Herr von Kühlmann meditated an ultimatum. Count Czernin, who was receiving one Job's message after another from Vienna, feared the final collapse of the negotiations and became more and more inclined to favor a peace with the Ukraine alone, as he wished to carry home at least *one* peace treaty. Herr von Kühlmann came to much the same conclusion. It was, however, at last agreed that Trotsky should go to Petersburg, but that he should return on the 29th to continue the negotiations. He left on the 18th.

CHAPTER VI

THE SITUATION IN AUSTRIA-HUNGARY BEFORE THE PEACE WITH UKRAINE

Dearth of Food.

IN the middle of January news reached Brest-Litovsk of the extraordinarily critical condition of things in Austria-Hungary. At the beginning of the month the ration of bread and meal, already insufficient, had been reduced from 200 to 165 grams a day, and now not even this could be provided. On the 15th Count Czernin telegraphed to the Emperor Charles as follows:

"I have just received from the Stattholder Count Coudenhove a letter which justifies and confirms the fear which I have repeatedly expressed to Your Majesty that in the question of food supplies we are face to face with an immediate catastrophe.

"The situation is terrible, and I fear it is already too late to arrest the complete collapse which is to be expected within the next few weeks. Count Coudenhove writes:

"'From Hungary we are receiving but insignificant quantities, from Rumania still 10,000 trucks of maize, so that there remains a shortage of at least 30,000 truck-loads of grain without which we must simply perish. When I heard of this state of things, I went to discuss it with the Minister President. I told him that, as matters are, our war industries and railway communications must in a few weeks come to a standstill, that in such a case the army would collapse for want of supplies, and that this catastrophe would be followed by the collapse of Austria and consequently also of Hungary. To each of my questions he replied: "Yes, that is so," and added that everything was being done to bring about a change, especially as regards the Hungarian deliveries, but that no one, not even Your Majesty, had been able to obtain any result. One could only hope that a *deus ex machina* would preserve us from the worst.'

"How often and how earnestly have I begged Your Majesty at least to take energetic action and to force the Austrian Minister President on the one side and the Hungarian Food Control Minister on the other side to set things right. From here, too, I wrote be-

secching Your Majesty to act while there is yet time. All was in vain.

"The only chance of averting the worst, if indeed it can be averted, is to attempt simultaneously to exhaust all possibilities that remain.

"1. General Landwehr should at once go to the Emperor William, with a letter from Your Majesty fully explaining the situation, and beg him to help us out. Without a direct appeal to the Emperor William, nothing can be done.

"2. In order that this step may have a chance of success, action must naturally be taken at the same time in Austria and Hungary and with the greatest energy. The farmers there, indeed, are said not to have much left, since—as I have already informed Your Majesty—the Esterházy-Hadik Ministry, in its time, made the terrible mistake of freeing sales.¹ It seems, however, that dealers and consumers, towns and other communes, industries, manufactories, hotels, etc., have hoarded great stores. These must be surrendered. This can only possibly be achieved under threat of draconian punishment (prison). But for this purpose it will be above all necessary to nominate a Minister of Food Control who is prepared to take action.

"3. The ration per head must remain permanently diminished.

"4. Inquiry should be made as to the possibility of supplies being obtained from our part of Poland. There is no doubt that people in Lublin have more to eat than we. This, too, would not be done save by direct Imperial command, as Count Szeptycki would otherwise certainly offer passive resistance.

"5. I am making every conceivable effort to obtain some grain from the Ukraine. This will perhaps be successful, but only in small quantities and not till late in the spring.

"I once more adjure Your Majesty to devote yourself to this question of food supply and not to deceive yourself as to the seriousness of the situation. Should this unexampled condition of things

¹ Count Maurice Esterházy was Prime Minister of Hungary from 15th June to 20th August 1917. This statement by Count Czernin is not quite correct. The Esterházy-Hadik Administration did not take off the embargo on cereals but, from practical considerations, ordered that the requisitioning of cereals should take place not after the harvest, but after the threshing, straight from the machine.

continue, we shall certainly within a few weeks have the great collapse and the revolution."

On 16th January, the Austrian Minister President Seidler telegraphed to Count Czernin:

"I have the honor to present to Your Excellency the following information as to the internal situation:

"The situation in Austria as regards the supply of meal and bread has now reached the acute crisis so often foretold by the Austrian Government. In Trieste the dearth of provisions could only be helped out temporarily by means of supplies provided by the Navy from the stores at Pola. Yet the bread ration had to be reduced by half. The result was workmen's demonstrations. The authorities (*Statthalterei*) fear an extension of the movement.

"From Cracow the Prince-Bishop telegraphs that there have been revolts of Social Democrats and starving people.

"In the district of Wiener Neustadt, near Vienna, the dearth of meal has led to strikes, which it is feared will spread to the personnel of the Southern Railway.

"Vienna has only flour enough to last till Monday, in spite of the fact that the most distant reserves still available have been drawn upon. It is only from Germany that effective aid for the capital of the Empire can arrive in time, and that only if supplies are despatched at once. For this reason the Ministry of Foreign Affairs is begged to make the most pressing representations through the Embassy at Berlin.

"Such assistance, however, will naturally only tide matters over for a few days. The only real cure for these impossible conditions, pending the resumption of imports from Rumania, *i.e.*, the opening up of the Danube, would be to draw supplies from Hungary, and this can only be done if the requisitions ordered there are really seriously carried out. The Austrian Government has no choice but to inform Your Excellency of all this and to beg you in due course to call the attention of the German Delegation to the uncommonly critical state of affairs which unforeseen difficulties may easily turn into a catastrophe."

The Minister President added, by telephone, that no question excited the population at the moment so much as that of the peace negotiations at Brest, as the wish for peace was absolutely in the ascendant.

On the same day, Herr Höfer, the Food Control Minister, announced to the Ministry of Foreign Affairs that the agitation among the workmen in Wiener Neustadt, due to the reduction of the ration of flour, had assumed a decidedly revolutionary character. The leaders of the men were actually with him, demanding an increase of the reduced ration of flour and an assurance that the peace negotiations would have a favorable outcome.²

Negotiations with the Central Powers.

Austria-Hungary turned to Germany and also to Bulgaria for help, and both at first refused. Prince Hohenlohe, the Austrian ambassador in Berlin, telegraphed on the 16th January as follows:

"In spite of my most earnest endeavours in this matter the Ministry of War and Food Control Office here, on the plea of their own dearth of supplies, have refused to deliver by way of loan 2,000 trucks of meal to our Army authorities.

"General Ludendorff has declared that in no circumstances could he contribute anything from his Army stores. To my representations at the Imperial Food Control Office (*Reichsernährungsstelle*) the Under-secretary of State, von Braun, replied that it was quite impossible to meet our wishes, especially as they were just on the point of reducing the flour ration here.

"These experiences forced me to answer in the negative an inquiry addressed by General Landwehr to the Embassy as to whether he would be likely to achieve anything by coming here in person. To-day His Imperial and Royal Apostolic Majesty telephoned to me to say that it is his intention to write personally to H.M. the Emperor William, but only in the event of his receiving an assurance that this letter will not be answered in the negative. To His Majesty's question whether I would take the responsibility for this, I felt it my duty to reply that I could not possibly do so. I am firmly convinced that, in this event, His Majesty the Emperor William would consult the authorities responsible for these matters, and the information which I myself received about them in these quarters was so extremely decisive in form that I must assume it as certain that His Majesty the Emperor William would also *in merito* reply by a refusal.

² Telegram of Baron Flotow to Count Czernin, 16th January 1918.

"Since His Imperial and Royal Apostolic Majesty spoke of the pressing necessity for securing supplies, I will now attempt to secure delivery of a smaller quantity than the 2,000 trucks, but I fear that this too will not be attainable."

On 17th January 1918, the Austro-Hungarian Envoy in Sofia telegraphed to Count Czernin:

"The Minister President Radoslavoff at once informed His Majesty the King and sent an urgent telegram to the Bulgarian representatives in Bukharest pressing for information as to whether Bulgaria could at once make over to us any of the supplies belonging to her in Rumania and how much. Bulgaria, he held, has an absolute right to supplies there which were now in German keeping but must, in present circumstances, be handed over to us. Minister President doubts, indeed, whether at best we shall receive more than a few hundred truck-loads from there. As for delivery of grain from Bulgaria, both gentlemen were at one in declaring that it was out of the question to send even a few trucks from here. General Protogeroff gave me proofs that of the 40 or so truck-loads needed daily for the Serbian front he obtains each day only one half, and often only a third, and that with difficulty and by means of forced military requisitions. The same thing is true of the larger towns. There is absolutely no reserve, but every day the smallest quantities are collected and despatched from all parts of the country. By April the trickle from this source would also be dried up and what would happen then he could not say.

"Minister President and Protogeroff naturally used this situation in order to tell me that the general state of things in the Quadruple Alliance urgently demands peace with Russia, especially Ukraine, even at the cost of great sacrifices."

On 18th January the German Government decided after all to send, not indeed 2,000, but 450 truck-loads of flour to Austria. Prince Hohenlohe telegraphed the same day:

"The Imperial Chancellor, to whom I yesterday made the most urgent representations as to the pressing necessity for Germany to help us out with flour, promised before to-day's meeting to send instructions to this effect to the proper authoritative quarters. At to-day's meeting the German Government declared itself prepared to come to the following agreement:

"The Imperial German Grain Control (*Reichsgetreidestelle*) will

deliver to Austria-Hungary 4,500 tons of 94 per cent wheat flour, to be placed at the disposal of the common Food Control Committee (*Ernährungsausschuss*); Hungary will in return deliver 4,500 tons of wheat flour or 5,600 tons of maize corn. Austria will permit and facilitate the transit from Hungary to Germany. The Hungarian return delivery shall be completed by 15th March, 1918."

The catastrophe in Austria could not be averted by any such slight assistance, and the only hope of salvation lay in imports from the East. The following telegram from the Ministry of Foreign Affairs to Count Czernin, dated 19th January, clearly describes the position:

"Austrian Minister President begs Your Excellency in agreement with General Landwehr for urgent despatch of following telegram to German Supreme Army Command:

"Three days ago there began in the neighborhood of Vienna a strike which, started with a political motive, took at first the form of a demonstration for a speedy conclusion of peace. Beginning in the ranks of unorganized labor, it at once spread to those of organized labor and, like wildfire, continued to spread so rapidly that the labor leaders, who wanted to stop the movement, were powerless to do so. The movement would not have reached such great proportions had the situation as regards food supplies not sunk to a point which is felt to be intolerable.

"The 4,500 tons of flour sent by the Berlin Grain Control will barely help us over the week from the 21st to the 27th. Rumanian contributions will then be indispensable, as Hungary can scarcely provide for its own needs and those of the Army. There is thus nothing left to cover the Austrian deficiency of 1,300 tons a day. Austrian Government therefore most urgently requests that the 4,000 or 4,500 bread-stuffs loaded on barges, for despatch to Germany, at Orsova and Turnu-Severin, shall be handed over by way of loan to Austria-Hungary and despatched with the utmost speed. Further the military administration of Rumania must be most urgently begged to do everything possible to force on the export by railway, so that Austria may at the earliest possible moment receive 1,000 tons a day from Rumania. Only thus can a reduced supply of flour be assured in the great centers of consumption. Situation this year has unfortunately become far more critical than at this time last year, when it was possible to make up the shortage in January

and February with the help of 20,000 tons supplied by Germany. State of food-supplies is for several reasons worse this year than last. Harvest of bread-stuffs in general the same, *i.e.*, better results in some districts balanced by worse in others. On the other hand, three factors which have only worked unfavorably:

“(1) Owing to early threshing the harvest was drawn upon from four to six weeks earlier.

“(2) While last year 300,000 tons of barley were milled, this year, owing to the catastrophic failure of the harvest, and in spite of the most drastic requisitioning, no more than 142,000 tons could be provided for sustenance.

“(3) The reconquered districts of East Galicia and the Bukovina were partly lying fallow, partly so completely depleted by the armies on either side that not only food for the population but even seed-grain had to be supplied to them. Hungary has up till now helped out with some 44,000 tons, which is as insufficient to meet requirements as the contribution of Rumania. Of a total of 405,000 tons Austria-Hungary has received 176,000 tons, of which roughly 30 per cent has been taken for the supply of the Army, so that 70 per cent or 124,000 tons were available for the Austrian civil population. This Rumanian contribution does not even cover the shortage in home-grown barley. For the rest it can be assumed that situation here is sufficiently known through reports of the representative here of the German War Food-supply Office (*Kriegsernährungssamt*).

“Close of the despatch to be addressed to the German Supreme Army Command.

“For the information of Your Excellency I add: in the event of the grain at Orsova and Turnu-Severin destined for Germany not being handed over by the Germans of their own free will, it is intended to seize it.

“By command of His Majesty, who is greatly impressed by what is happening, both Ministers President and Landwehr are negotiating to-day about the suspension of the imports from Hungary.”

Earnest efforts were now made to collect grain in the Monarchy itself by means of military requisitions. For this purpose twenty-one battalions were brought back from the front to Hungary and twelve to Austria. Poland had to supply fifty truck-loads a day. Then, at the beginning of February, an arrangement was come to

with Germany by which Austria-Hungary was to be supplied daily from Rumania with from 200 to 250 truck-loads taken in part from the German contingent.

Revolutionary Movements.

In connection with the growing food shortage, towards the middle of January 1918, strikes broke out all over Austria, and in these desire to press for a speedy peace played its part.³ Simultaneously there began an agitation of the nationalities of Austria. On 7th January there was a meeting at Prague of the Czech delegates, who protested violently against the principle, laid down at Brest-Litovsk by Count Czernin, that the question of the right of self-determination of the Austrian nationalities must be solved by constitutional means, and demanded that these nationalities should have independent representation at the peace congress. In this demand the Southern Slavs joined with the Czechs, and both groups declared that Count Czernin did not speak in the name of the peoples of the Monarchy, but only of a privileged minority.

It was in these circumstances that, on 17th January, the Emperor Charles telegraphed from Laxenburg to Czernin as follows:

"I must once more most earnestly impress upon you that the whole fate of the Monarchy and of the dynasty depends on peace being concluded at Brest-Litovsk as soon as possible. We cannot overthrow the situation here for the sake of Courland, Livonia and Polish dreams. If peace be not made at Brest, there will be revolution here, be there ever so much to eat. This is a serious instruction at a serious time."

In these circumstances, the difficulties which threatened to wreck the peace with Russia gained a special significance. In this question Austria-Hungary contented herself with not opposing the views of Germany. From her own point of view, and as things were, she would have made no serious objection to the acceptance of the Russian formula of the right of self-determination. Poland, in which Austria-Hungary was interested, would in that case have had to decide, after it had been evacuated, whether it would remain independent or attach itself to another country—Austria-Hungary, Germany, or Russia. Austria could have accepted this with equanimity; for,

³ Police report of 17th January 1918.

in the event of a victory of the Central Powers, the chances that Poland would attach itself to the Monarchy would have remained very favorable, while in any other case there could be no question whatever of any such union. This being so, the idea that it might become absolutely necessary to conclude a separate peace between Austria-Hungary and Russia was bound to arise, and did in fact arise in the middle of January. Any such resolution, however, would have had the most serious consequences. However great the exhaustion of Austria-Hungary may have been, there might well have been hesitation before separating from Germany, leaving her in the lurch at a critical moment, and so exposing the Monarchy and its Governments to the charge of having brought about the defeat of the Central Powers.

If we add to this that the negotiations with the Ukrainers, from whom the situation could not be disguised, also revealed the necessity for heavy political sacrifices, and that Count Czernin, in any case almost broken down under the weight of his responsibility, was ill and suffering from a high fever, we may gain an approximate idea of the state of things to which the peace with the Ukraine owed its origin.

CHAPTER VII

PRELIMINARIES OF THE PEACE WITH THE UKRAINE

WHEN, about 15th January, the commissions charged with the negotiations with Russia had reached a deadlock on the territorial question, the idea of first concluding a peace with the Ukraine came ever more to the front. While peace with Russia could only be obtained at the price of concessions by Germany in the territorial question, that with the Ukraine involved sacrifices on the part of Austria-Hungary alone, and these she was not in a position to refuse. From the German side also pressure was brought to bear in favor of peace with the Ukraine.

The negotiations with the delegates of the Ukraine, which began on 15th January, were conducted by Count Czernin, who was still very ill, under the mediation of General Hoffmann. The Ukrainers, who knew of the desperate plight of Austria and the deadlock in the negotiations with Russia, now raised their demands. On the 18th they were promised the cession of the whole district of Kholm, to which the Poles laid claim. They had earlier declared that they had no desire to interfere in the internal affairs of the Monarchy in favor of the Ruthenes (Ukrainers); but it was precisely in this question that they now showed the most active interest, and they duly received an undertaking that Austria-Hungary would do nothing to interfere with the national and linguistic development of the Ruthenes residing in her territories, and that those parts of East Galicia and the Bukovina in which they formed a majority would be erected into a separate Crown Land.

These arrangements were of the most far-reaching importance. The cession of the district of Kholm was bound to drive the Poles into opposition to the Government,¹ and so to imperil, if not com-

¹ "Poland claimed a representation at the negotiations, but was denied it. The treaty renewed one of the last wrongs inflicted by the old Tsarist Russia on the Poles before the War: it turned over to the Bolsheviki that district of Chelm (Kholm) in South-Eastern Poland which the Tsar's Government had separated from Russian Poland and incorporated in Russia proper (1912). This raised the loudest protests from all the Poles under Germany and Aus-

pletely to wreck, that Austro-Polish solution which was at that time being seriously considered. There were those, indeed, who scented behind the Ukrainers certain secret influences directed to precisely this end. That the Monarchy should have made its internal concerns the subject of an international treaty was evidence of a yielding temper hardly to be expected of a State which, at that time at least, was in the position of the victor. It was explained by the situation in the Monarchy, which made even serious sacrifices seem advisable. The return for these sacrifices, which seemed problematical enough, was to be the receipt of supplies of grain from the Ukraine.

The next few days were passed in Vienna and Berlin in attempts to clear up the situation, confused by the plan for a peace with the Ukraine and the concessions made to the Ukrainers, and to render superfluous the separate peace with Russia which, in spite of all misgivings, Austria-Hungary had planned and which was approved in a Crown Council held on 22nd January. The value of a peace with the Ukraine seemed now very doubtful in view of the news from Kiev, where Vinichenko, the President of the Ukrainian People's Republic, and his "General Secretariat" (Ministry) had resigned and the Bolshevik Government at Kharkov was making progress at the cost of the Kiev *Rada*. Moreover, when the conferences were resumed at Brest-Litovsk at the end of January, it became clear that a peace with the Ukraine would destroy the last possibility of peace with Russia. Trotsky, who had recognized the independence of the Ukraine fourteen days earlier, now declared that, since the Bolsheviks were in possession of the industrial district round Ekaterinoslav, the coal basin of the Donets, and the district of Kharkov and Pultava, a peace concluded with the Kiev *Rada* could no longer be regarded as one concluded with the Ukrainian Republic. On the other hand, the obstacles to a peace with Russia remained as insurmountable as ever. The Germans wanted the peace with the Ukraine in the expectation that peace with Russia must follow. They did not, however, fear a breach with Russia. In view of the

tria. The highest Polish functionaries tendered their resignations. The remainder of the Polish Legions demonstratively left the Austrian front and marched into the midst of the welter of revolutionary violence in the Ukraine. Many perished there, some escaped, including General Haller, who became the leader of Polish military forces on the Allied side." Roman Dyboski, *Outlines of Polish History* (1925), p. 262. W. A. P.

series of wars then raging in Russia, there could be no question of a withdrawal from the Eastern front, since no one could tell what would happen next. In these circumstances it was felt that a breach with Russia would do no great harm and a peace with Russia not much good. The moral effect of concluding peace would not be great enough to warrant any sacrifices. It would evaporate within a week.

CHAPTER VIII

THE LAST NEGOTIATIONS WITH TROTSKY

SUCH being the state of affairs, the right policy for Austria-Hungary was clearly to do everything possible to secure a peace with Russia, which would enable her either to dispense with the peace treaty with the Ukraine or to secure it on more favorable terms. The obstacle to such a peace was still the difference of opinion as to disposal of those districts in which the War had provoked a movement for territorial change. For weeks past there had been dispute as to whether the right of self-determination had already been exercised or whether the people ought still to be consulted; whether this consultation should take the form of a plebiscite or of a constituent assembly; whether it should take place before or after the evacuation; whether the election was to be by universal suffrage or by *curiae*, and so on. The suggestion was now made, on behalf of Austria-Hungary, that the best thing to do, even from the point of view of Russian principles, would be to leave the decision in these matters to the peoples themselves, as represented in those "temporary organs of self-government," the setting up of which the Russians themselves had admitted to be necessary. The whole dispute could then be reduced to the single question of how these temporary organs were to be constituted. On this point it would be easy to arrive at a compromise, if on the one hand Russia were to admit that the existing organs, on which the Germans based themselves, were competent to express a part of the popular will, and on the other hand the Germans were to allow these organs to be supplemented by elements chosen, in accordance with the Russian point of view, by free election.

On 6th February, Dr. Schüller, of the Austrian Ministry of Commerce, undertook to sound Trotsky as to the possibility of such a compromise and to threaten him with an ultimatum if he maintained his attitude. On Schüller's remarking that the quarrel was all about words, Trotsky said that that was the fault of Kühlmann, who was forever trying to prove that annexations are not annexations. According to the Germans, he added, the terms of the treaty would be: (1) The right of self-determination of the people is recog-

nized and there will be no annexations; (2) Germany annexes everything. Such a peace treaty he could not conclude. Schüller laid stress on the fact that, none the less, he seemed to be more concerned with the solution of particular questions than with formulae and qualifications. "These too are of importance to us," replied Trotsky, "for we are convinced that the conditions now being created will be but temporary and will be dissolved by the universal revolution. It would be possible for me to conclude a peace by which Russia would be violated, but in that case this intention would have to be openly acknowledged by the other side. We cannot be asked for a moral testimonial as well." Schüller thereupon remarked that this might open an avenue to an agreement, and that in any case Count Czernin would take action in this sense.

"Czernin is wholly in German leading-strings," said Trotsky.

"It is natural that we should present a united front," answered Schüller, "and that neither of us should do anything without the consent of the other. But that does not alter the fact that Count Czernin honestly desires peace and that without annexations."

On the following day, 7th February, Count Czernin informed Herr von Kühlmann of his intention to make another attempt to secure peace with Russia. Kühlmann was not unsympathetic; but the plan was vigorously opposed by the German military men, especially General Hoffmann, who wanted to overthrow Russia by a final attack and force a peace upon her, and who were in any case more in favor of a peace with the Ukraine.

In the evening Count Czernin, accompanied by his *Sektionschef* Dr. Gratz, visited Trotsky in his lodging, explaining that, since there was now a danger of the negotiations being broken off, he intended to see whether it would be possible to open the way to peace by means of confidential conversations. The negotiations, he said, had taken too much the form of subtle theoretical arguments on general politics, which could lead to no result. It would be better to put them aside and to attempt a practical solution of the questions which stood in the way of peace.

Trotsky agreed, but said that it was Kühlmann who had kept the discussions on theoretical lines. Kühlmann wanted to persuade him that those accessions of territory which Germany wished to acquire would not be annexations, but would fall to Germany in virtue of their right of self-determination. That he could never admit, even

if his refusal were to cause the collapse of the new régime in Russia. The Russian Government could bow to certain facts; it would stultify itself by declaring in the first article of a treaty that there were no annexations and in the second article admitting such annexations. For this reason he had over and over again declared during the sittings of the commission that if Germany would openly adopt the principle of annexation a solution would be possible. A solution could be found on the basis of the right of self-determination, as he had hoped at Christmas; but this had been a false hope, because Germany had played a treacherous game. A solution could also be found on the basis of annexations, but this must be openly admitted.

Dr. Gratz replied that, if Trotsky would not allow himself to be forced to qualify as no annexation what he regarded as an annexation, he could not demand that Germany should recognize as an annexation what she regarded as no annexation.

"It is not necessary," said Trotsky, "that Germany should acknowledge in the treaty that she is making annexations, but I must reserve the right to describe Germany's activities as annexations."

"It would be possible," suggested Dr. Gratz, "not to touch on this question at all in the treaty. The treaty might simply say that such and such territorial changes will be carried out. You would then be at liberty to qualify these changes as annexations, while the Germans could say that the people in question had attached themselves to Germany by the exercise of the right of self-determination."

"I believe this way can be followed," said Trotsky.

A common basis for the peace having thus been found, the practical difficulties were next discussed. Trotsky pronounced the frontier line demanded by Germany unacceptable at three points. Russia could not cede the Moonsund Islands, as this would mean a perpetual threat to Petersburg. The cession of Riga could also not be accepted. Finally, he demanded an alteration of the Lithuanian frontier.

Conversations followed between Austria-Hungary and Germany on these questions, the Monarchy offering to act as mediator. But all these attempts broke down on the utterly unyielding attitude of the German Army Command, which would hear nothing of concessions and was already determined on the advance on Petersburg which was to force Russia to unconditional submission. The attitude

of Trotsky, however, made it probable that the peace would not be wrecked on these demands.

Trotsky laid still greater stress on the demand that no simultaneous treaty should be made with the Ukraine. He explained that the *Rada*, with whose representatives the Central Powers had negotiated, no longer had any real existence. When Count Czernin expressed doubts as to the truth of this, Trotsky read a wireless message which he had received, according to which the Bolshevists had captured Kiev on 29th January, the Ministry had fled, the *Rada* had dissolved itself, the members of the Compromise Ministry had been arrested, Shecherbachov's army had joined the Bolshevists, and so on. Finally, Trotsky said that, if they did not believe him, they could send an officer to Kiev to see with his own eyes whether the *Rada* still existed. He asked for the postponement of the negotiations for peace with the Ukraine pending the report of this officer.

Negotiations with the German delegates followed, as a result of which it was possible to inform Trotsky that, though there was little prospect of their yielding on the territorial questions at issue, a formula might be found which, without touching the question of "annexation or self-determination," would make peace possible. Trotsky agreed to this, but reserved his right of protest. In the matter of the treaty with the Ukraine, on the other hand, he had to be informed that the negotiations had gone too far to allow of the postponement of the peace, which would soon be signed. It had, moreover, transpired that, as late as 5th February, the Ukrainian delegates had received telegraphic despatches from Kiev and had spoken with the Ukrainian Minister President Holubowicz; which seemed to show that Trotsky's information as to the capture of Kiev by the Bolshevists on 29th January was not accurate. In any case, there was no reason why the peace with the Ukraine should imperil that with Russia. The Central Powers were simply making a treaty with the Ukraine in regard to Southern Russia. They would make a second treaty with the Petersburg Government in regard to the whole of the territories over which its influence extended. If things took the course which Trotsky said they would, the St. Petersburg treaty would become valid for all Russia and that with the Ukraine be simply regarded as non-existent.

Trotsky replied that this did not seem to him to be possible. The *Rada*, by leaning on the Central Powers, was seeking to secure its

existence as against the Russian Government. The Russian Government could never by its signature confirm the *Rada's* existence. As for the suggestion that the treaty need take no account of the Ukrainian peace, he held to his opinion that the conclusion of the treaty with the Ukraine must be regarded by Russia as an unfriendly act and would make peace impossible. The Treaty of Peace, he suspected, was intended as a basis for ultimate intervention.

Since Trotsky held firmly to his refusal to sign a treaty with the Central Powers if these concluded a simultaneous treaty with the Ukraine, the negotiations had to be broken off. It was, however, now clear that the signature of the treaty with the Ukraine could no longer be avoided, and this was announced to Trotsky. He thereupon declared that, in spite of this, the *modus procedendi* agreed upon could be maintained, and that at the next sitting of the peace conference the proposal should be made to conclude peace, all theoretical questions being excluded.

CHAPTER IX

SIGNING OF THE PEACE WITH THE UKRAINE

THE treaty with the Ukraine was signed on the same evening, the 8th February. It included the political provisions already agreed upon: recognition of the right of the Ukrainers to the district of Kholm, guarantees for the linguistic rights of the Ruthenian population in Galicia, and the formation within the Monarchy of a separate Ukrainian Crown Land. Further demands had, indeed, been made by the Ukrainers, especially as regards the Ruthenian districts of Hungary, but Count Czernin had refused to make any more concessions.

The main difficulty lay in devising the proper form for making these concessions dependent on the due delivery of the supplies of grain which the Monarchy had been led by the Ukrainers to expect from them. A proposal to include this obligation in the treaty itself was rejected by the Ukrainers, and in the end it was agreed to adopt the following complicated device. The Ukraine would bind itself in the treaty to place its surplus of agricultural produce at the disposal of the Central Powers. The non-fulfilment of this obligation would release Austria-Hungary from any obligation undertaken by her under the treaty. As soon as the treaty had been signed a commission was to meet in Kiev to determine the amount of the surplus in the Ukraine. The Ukrainian Government would guarantee, verbally and privately, that this surplus would be fixed at at least a million tons. If no such treaty were signed, the Peace Treaty, not having been ratified, would be invalid. If the treaty were to be concluded, but not carried out, Austria-Hungary would be freed from her obligations under it, the Ukraine not having fulfilled her obligation to deliver the surplus stipulated.

IN accordance with these ideas the following Protocol was drawn up in concert with the Ukrainian delegates:

“At to-day’s sitting of the Austro-Hungarian-Ukrainian Commission for the drawing up of a collective treaty of peace between Germany, Austria-Hungary, Bulgaria and Turkey on the one part and the Ukrainian People’s Republic on the other part, the President, Herr von Wiesner, made the following statement:

‘In agreeing to the provisions of Article VII, Number I¹ the Powers of the Quadruple Alliance, acting on the data supplied by the Ukrainian delegation, proceed on the assumption that the surplus of bread-stuffs in the Ukrainian Republic amounts to at least a million tons, that the Commission to be appointed will confirm the existence of this amount and will secure its prompt delivery and its despatch at the earliest moment.’ ”

The Ukrainian delegation took cognizance of this statement with the following minute:

“As regards the amount of bread-stuffs which the Ukrainian People’s Republic is able to deliver, we believe that we can state that the amount mentioned is available; its delivery and despatch, however, depend on the receipt by the Ukrainian grain-producers of an equivalent value in wares, of which we stand in need, and on the co-operation of the Central Powers with the Ukraine both in the work of despatch and in the improvement of the transport organization.”

This Protocol, dated 7th February 1918, was signed by Wiesner, as Minister Plenipotentiary of Austria-Hungary, and Lyubinski, as Minister Plenipotentiary of the Ukraine Republic.

Von Wiesner added a declaration that the ratification of the Peace Treaty by the Powers of the Quadruple Alliance would depend on the conditions laid down by him being fulfilled. The Ukrainian delegation declared that they had taken note of this communication and agreed with it, but begged most urgently not to be required to take any responsibility for it, as this was for parliamentary reasons impossible. They quite understood that the treaty would not be ratified by the Allied Powers if the conditions laid down by the President and formulated in the instrument before them were not carried out.

The negotiations with the Ukrainians were hurried on and, though at the last moment the economic relations of the Turks and Bulgarians with the Ukraine had to be settled, were brought to an end on 8th February. The treaty, after being copied out and read through with the Ukrainians, was signed, at 2 A.M. on the morning of the 9th, by the glaring light of the cinema apparatus.

That the prospect of obtaining considerable supplies from the Ukraine was not at this moment very hopeful is proved by the fol-

¹ This article regulates the exchange of wares with the Ukraine.

lowing telegram to the Ministry of Foreign Affairs, despatched by Count Czernin from Brest on 10th February:

“Though the conclusion of peace with the Ukraine justifies the hope that we shall in time be able to obtain considerable supplies of grain, I emphatically and urgently call attention to the fact that these supplies can reach us only after a long time and that we are faced at the outset with almost insurmountable difficulties of transport. Thus, more particularly, any importation is scarcely to be thought of unless peace be made with Rumania. There are signs that we shall come to a peace with Rumania. I am full of hope that the peace with the Ukraine will bear fruit, but I beg most earnestly that in all the instructions of the authorities responsible for supplies there shall be *no* reckoning on future supplies from the Ukraine, that the ration per head shall *not* be increased, and that the *greatest economy* shall in every respect continue to be exercised, so that transport delays shall not lead to a catastrophe. It must also be borne in mind that the situation in the Ukraine is so little secure, that an overturn is very possible there and that, if the Petersburg Government were to come into power there, the position would be made very much worse.”

CHAPTER X

THE BREACH WITH RUSSIA

TROTSKY had declared that in the event of the conclusion of peace with the Ukraine it would be impossible to have peace with Russia, but at the same time had expressed the wish to continue the negotiations. This apparent contradiction was interpreted in several quarters as meaning that Trotsky would accept the peace conditions, though unwillingly, and would sign the treaty, if only under protest.

On the day after the signature of the peace with the Ukraine, Dr. Schüller had another interview with Trotsky, and informed him of what had happened.

"Then I cannot negotiate further," said Trotsky, "it is an interference in our internal affairs. You will set up the *Rada* somewhere on the Austrian frontier and use it as a pretext for continuing the war against us."

"If that were the intention," replied Schüller, "the advance would be on Petersburg, not on Kiev. If we had concluded peace with the Ukraine in order to proceed against Russia, there would be no sense in our trying to conclude peace with you now."

"I have expressly stated," said Trotsky, "that the *Rada* is now quite powerless, and offered to have this confirmed by the despatch of an officer to Kiev."

"We cannot help conditions in Russia being so obscure," said Schüller, "that is bad enough for us. Every peace will reach just as far as the authority of the Government with which it has been concluded. For the rest, the peace with the Ukraine is so favorable that, in given circumstances, you will be glad to take it over."

"I shall demand that peace be made with all Russia," said Trotsky. "By the Ukrainian peace you wish to secure yourselves supplies of grain, but we too draw grain supplies from the Ukraine. I am convinced that the intention is to give military support to the Ukraine against us."

"The best way to avoid that," said Schüller, "is to make peace. If you do not make peace, you will risk the Germans advancing on

Petersburg and driving you out. And presumably you wish to remain in power."

"The Germans would not dare to advance on Petersburg," replied Trotsky, "for, though great misuse has been made of the phrase Defense of the Fatherland, this could not now be made the pretext for an expedition to Petersburg. It would cause a revolution in Germany."

"You cannot reckon upon that with any certainty," said Schüller, "and if the revolution comes it is a question whether it would come in time for you." To which Trotsky made no reply.

Meanwhile the negotiations were continued, and the Germans actually expected some result. On 9th February after the signature of the treaty with the Ukraine, Count Czernin proposed, as agreed, to formulate practical conditions of peace to the exclusion of all theoretical pronouncements. Weeks had been wasted, he said, in fruitless discussions as to whether certain transfers of territory were to be regarded or described as the result of the exercise of the right of self-determination or as annexations. On these essentially theoretical differences there was no hope of agreement. But was such agreement necessary for the conclusion of peace? It was, it seemed, not so much the territorial changes themselves that stood in the way of an understanding as the terms in which they should be qualified. "Let us, then," he concluded, "leave the question open as to how the changes planned are to be understood and, leaving this disputed question aside, let us endeavor to determine whether the carrying out of these changes would in fact put any obstacles in the way of the conclusion of peace."

Count Czernin's suggestion was generally approved, in spite of a battle of words between Trotsky and Kühlmann, in the course of which the former tried in vain to find out what Germany's views on the frontier question were. A commission was appointed to prepare the ground for an agreement on this question. During the next few days this met twice, but, owing to the intransigent attitude of the German military delegates, wholly without result. The situation, indeed, had become if possible even more critical, for the Germans had intercepted wireless messages of the Russian Government which revealed the intention to incite the German army to mutiny by means of revolutionary catch-words.

In the meanwhile there was another meeting with Trotsky in the

hope of persuading him, in spite of all, to conclude peace. Trotsky declared that he would give his answer only at the public session, and when warned to beware of causing a breach, replied oracularly: "I have not said that it will come to a breach." But in the evening public proof was given that no agreement had been reached. Trotsky left the hall, after making a declaration which said, in effect, that Russia would cease hostilities, but could not conclude a treaty of peace.

When the delegation was called together in the evening, in order to decide what was to be done in view of this new turn of things, there was but one voice, that of the German military delegate General Hoffmann, which spoke in favor of resuming the War with Russia. But this voice was more potent than all the others; for that was the course which things had taken.

CHAPTER XI

THE PEACE WITH RUSSIA

As a result of the breaking off of the negotiations, on 18th February, Germany denounced the armistice and invaded Esthonia, her troops advancing rapidly as far as the shores of Lake Peipus. The Russians, who felt themselves threatened in Petersburg, were now forced to yield; and on the 19th Lenin and Trotsky sued for peace, declaring their readiness to accept all the conditions laid down at Brest-Litovsk. The reply of the German Government, on the 21st, was an ultimatum in which certain additional conditions were stated. The eastern frontier was to be advanced to that of Courland, and Livonia and Esthonia were to be evacuated by the Russians and occupied by Germany. Russia was at once to make peace with the Ukraine, and to withdraw her troops both from the Ukraine and Finland. The old commercial treaty with Germany was, with certain modifications, to come into force again and most-favored-nation treatment was to be ensured until the end of 1925. On the 24th the Russians telegraphed their acceptance of these terms, and on the 26th the Russian negotiators once more appeared at Brest. At the request of the Turks, they were here informed that, in addition to stipulations of the ultimatum, a further demand was to be made, namely, that the fate of Ardahan, Kars, and Batum must be decided on the basis of the right of self-determination. For the Turks wished to retain these territories.

The first session of the conference was held on 1st March under the presidency of Herr von Rosenberg. After adjuring the delegates to avoid unnecessary speeches and to concentrate on practical business, he unfolded the plan proposed. This was to concert a united and collective treaty of peace of all the Powers of the Quadruple Alliance with Russia. To this were to be attached four separate annexes regulating the economic relations of the four Allies with Russia. Furthermore, four subsidiary treaties were to be concluded for the regulation of legal relations. He further proposed that the plenary session should be continued at once as a session of the political commission, and that then special commissions should be appointed for juristic and politico-commercial questions.

The president of the Russian delegation, Sokolnikov, agreed that the negotiations should be kept as concise as possible, and pointed to the fact that Russia accepted the conditions which Germany had imposed on her by force of arms. He agreed, too, that real negotiation should begin without delay. He objected, however, to the setting up of separate commissions; the Russians wished all the negotiations to be conducted in the plenary sessions. Herr von Rosenberg, after pointing out that Germany had not dictated conditions and that the Russians were quite free to accept or to reject them, agreed that for the present negotiations should be carried on in the plenary sessions; but, since this would not be an economical method, as the Russians themselves would presently discover, he believed that he ought to hold the question of setting up special commissions open. The attempt to persuade the Russian delegation at once to begin discussing the particular provisions of the Peace Treaty was unsuccessful, as they refused to express any opinion until they had studied the proposals of the Quadruple Alliance in their entirety. The drafts of the collective treaty and of the legal and commercial treaties were thereupon handed over to them, after the President had called their attention in a searching statement to the terms of the ultimatum. At 5 P.M. the session was adjourned.

At the afternoon sitting Sokolnikov proposed that the plenary session should be interrupted, and that the presidents of the delegations should discuss matters. During this discussion he declared that it was under pressure of the German armies, which had not even now ceased their advance, that Russia was being forced to make a peace which was no peace by agreement. In these circumstances it was impossible for the Russian delegation thoroughly to examine and test the draft treaties laid before them. They were, however, prepared to sign them, possibly on the following day. He would like to know the decision of the Powers of the Quadruple Alliance as to such signature.

Herr von Rosenberg replied that Russia could not say that she had to conclude a peace which had been forced upon and dictated to her. For six weeks, during the first period of the negotiations, the questions at issue had been threshed out, and the results were embodied in the ultimatum; so that the Russian delegation had known and did know what was in the draft treaties and was perfectly able to test and discuss them. The president of the Austro-

Hungarian delegation, von Merey, agreed with this. He emphasized the fact that Austria-Hungary, like her Allies, did not and never had desired a dictated peace, but a peace by agreement. She remained true to her principle, proclaimed a year ago, of striving for a peace without annexations. The conditions of peace presented to the Russian delegation were the outcome of protracted labor in common with the Russian delegation, and of the ultimatum which, after time enough for deliberation, had been accepted by the Russian Government. If the Russian delegation wished to imply that they were forced in any sense to "sign blindly," this could not be accepted. With these remarks the Bulgarian Minister, Tonscheff, and the Turkish Ambassador, Hakki Pasha, expressed their agreement.

Sokolnikov replied that he must maintain his standpoint, as there could be no question of any discussion of the treaties in this atmosphere of force. They would sign the drafts submitted to them in the sight of the workmen, soldiers, and peasants of the whole world, by whom these treaties would be judged. He repeated his proposal to sign on the following day, and proposed in the first instance to sign only the German texts, reserving the signature of the others. To this the Allies agreed, on the express condition that the texts of the other treaties should be accepted as original texts as quickly as possible. If technically possible, the signatures were to be affixed on the following day or, at latest, on the day after. The proposal to set up commissions, twice brought forward, was consistently rejected by the Russians, who refused to collaborate in any practical discussion. The treaty of peace with Russia was signed on the 3rd March.

CHAPTER XII

THE ECONOMIC PROVISIONS OF THE TREATIES OF BREST-LITOVSK

So far as the settlement of economic questions in the treaties with Russia and the Ukraine was concerned, the principal object of the Central Powers was to put an end to the economic war and, if possible, to restore the relations which had existed before the World War. They were conscious of the difficulties in the way of the restoration of international intercourse, though far from seeing how great these difficulties were to prove. They hoped, too, to make a favorable impression on the Western Powers, with whom the War continued, and to set a good example for the future peace. This did not prevent the treaties being very unfavorably judged by the public opinion of the Allied Powers, though this was due rather to the territorial settlements made than to the peace provisions. The economic provisions are based, as we shall see, almost exclusively on the principle of reciprocity, though exceptions to this were made later in the Peace Treaty with Rumania. In this respect the economic and legal treaties of Brest-Litovsk differ from the Paris treaties, which almost without exception impose upon the vanquished States one-sided obligations.

The rational effort to restore mutual intercourse as quickly and fully as possible broke down, not primarily because the victory of the Western Powers at the end of 1918 made the Brest treaties inoperative, but because the anarchical conditions in Russia made the resumption of regular relations impossible. Even the delivery of foodstuffs and raw materials, stipulated in the treaties, could be carried out to only a very small degree, owing to the complete disorganization of economic conditions and of the transport system in Russia. The opening-up of the great Russian Empire, which in times of peace had exported such considerable quantities of food and raw materials, helped the victors relatively very little.

The following treaties were concluded at Brest-Litovsk: the Treaty of Peace of 9th February 1918, between Germany, Austria-Hungary, Bulgaria, and Turkey on the one side and the Ukrainian People's Republic on the other side. Four subsidiary treaties of 12th

February between each one of the four Central Powers and the Ukrainian People's Republic. The Treaty of Peace of 3rd March 1918, between Germany, Austria-Hungary, Bulgaria, and Turkey on the one side and Russia on the other side. Subsidiary treaties of the 3rd March between each of the four Central Powers and Russia.

War Costs and Reparations.

Article V of the Treaty of Peace with the Ukraine runs: "The Parties concluding the treaty mutually renounce all claim to compensation for their war costs, that is to say, for expenses incurred by the State in carrying on war, as well as compensation for their war damages, that is to say, all damages incurred by themselves or their nationals in the war zone through military measures including all requisitions in enemy country." Article IX of the treaty with Russia is identical.

The Central Powers, then, absolutely waived all claim to compensation for war costs and all claim to reparations. The Austrian Crown Lands, Galicia and Bohemia, as well as certain parts of northern Hungary, had been devastated in the battles with Russia and had to be built up again, and East Prussia had also suffered under the Russian invasion. The Austrian Government was at least anxious to secure an undertaking on the part of the rulers of Russia that they would do their best to assist the economic restoration of Ukrainian districts of Galicia which had been the theater of war, especially by supplying cattle, horses, and seed-grain. This, however, was rejected by the Ministry of Foreign Affairs, on the ground that it wished to maintain the principle of "no reparations" and also because it disapproved of any appeal to the good will of Russia.¹

The Russian delegates affirmed, however, that compensation for war costs was contained in the treaties in a disguised form, but in support of this they could only instance the mutual obligation to compensate for the cost of the maintenance of prisoners of war.²

¹ Note of the Austrian Ministry of Finance of 8th February 1918 (Z. 284). Note of the Ministry of Foreign Affairs of 22nd February 1918 (Z. 13273).

² Article VI, Clause 4, of the Austro-Hungarian-Russian Additional Treaty.

The Russians pointed out that the employment of the prisoners of war at low wages led to profits which exceeded the expense of their maintenance. They therefore proposed the mutual waiving of the claim for cost of maintenance or its limitation to officers and invalids who were not required to work. Trotsky estimated the sum payable by Russia, principally under this arrangement, at four to five milliards of gold rubles, which was characterized by the Germans as a great exaggeration. However that may have been, the only sum actually ever paid was the 120 million gold rubles transmitted to Berlin in the autumn of 1918. By the terms of the armistice of 11th November 1918, this sum was handed over to France.

State Debts.

On the question of public debts on the one side and the other the treaties with Russia and the Ukraine contain only the following provision: "The treaty-making Parties will make special agreements as to the mutual discharge of State obligations out of the service of the public debt, and further out of the settling of accounts of the railway, post and telegraph administrations and the like."

In judging this provision, it must be borne in mind that Germany, more particularly, was in the position of a creditor State as regards Russia. She therefore proposed an annex to this article, which was to have run: "Each of the treaty-making parties, including its constituent States, shall, immediately after the ratification of the Treaty of Peace, resume payment of its obligations, especially the service of the public debt, to the nationals of the other Party."

This provision is mutual, and contains no stipulation as to the valorization of the coupons, *i.e.*, their payment in money at its full value. In spite of this, it was not accepted, since Austria-Hungary opposed it on the ground that it would create a precedent for the Western Powers, towards whom Austria-Hungary was in the position of a debtor State, to demand swift payment of the arrears of State debts.

Restoration of Private Rights.

The restoration of private rights is regulated in Articles IV and V of the Additional Treaty with the Ukraine and in the same Articles of that with Russia. These contain the following principles:

All regulations affecting enemy private rights made during the War are no longer in force. The property of enemy aliens is at once to be restored. On the other hand, under Article IV, Clause 4, of the Additional Treaties, there was to be no obligation to restore landed property, industrial enterprises and shares "in so far as the confiscated properties had, on the ground of legislation affecting all the inhabitants of the country alike and all objects of the same kind, been meanwhile taken over by the State or by the communities and held by them." In this account was taken of the revolutionary overturn in Russia, of the transference there of the land to the peasants, and of the taking over of all industrial enterprises as State property.

In the Ukrainian treaty there is not even any provision for the compensation of the expropriated alien owners of property. In the concluding protocol, indeed, the Austro-Hungarian delegation, while agreeing to the principle of State expropriation embodied in Article IV, stated it as a universally accepted principle of international law that, in the event of any State expropriating the property of foreigners, full compensation must be paid. The Ukrainian delegation, on the other hand, recorded their unaltered opinion that, in such a case, foreigners are in precisely the same legal position as natives.

In the Russian Additional Treaty, on the other hand, the duty of compensation is laid down in Article IV, Clause 7, Paragraph 2, and regulated in Article V. To determine the damages payable to the proprietors a commission was to be set up, of which each of the Parties was to appoint one-third of the members, the rest being neutrals. The damages awarded were to be paid within a month of the award.

Later on, under pressure from the large Polish landowners whose estates in the Ukraine had been confiscated, the Austro-Hungarian Government wished to secure compensation in that quarter also, and Count Czernin wrote from Bukharest to the delegates at Kiev instructing them to attempt this. They reported, however, that in the circumstances of the moment there was no hope of the attempt being successful, and that it would have to be abandoned.

The Brest-Litovsk treaties further provide for the immediate resumption of the payment of private debts, with 5 per cent interest from the date when they originally fell due (Article IV, Clause 2),

but no account was taken of the devaluation of money. Article V of the Additional Treaties lays down that compensation is to be paid for all war damage to the nationals of either party, whether as the result of the laws of war, of the temporary expropriation of land or other properties, privileges, rights or concessions, or of acts of violence committed outside the war zone and contrary to the law of nations whether by the servants of the State or the civilian nationals of either party.

In the Ukrainian Additional Treaty the application of this principle is reserved for a special agreement, the Ukrainian delegation pointing out that they could not undertake any obligation to pay compensation so long as the question of the division of property between themselves and the other parts of Russia remained unsettled (Article V, Paragraph 2). In the Russian treaty the agreements as to compensation for the confiscation of private property are valid also for the compensation for damage.

Merchant Ships.

Concerning the merchant ships which at the outbreak of war were lying in the harbors of the other Party, the Additional Treaty with the Ukraine provides that they shall be returned, together with their cargoes or, in so far as this is impossible, compensated for in money (Article X, Paragraph 1). Merchant vessels captured as prizes shall, in the event of their having been condemned before the ratification of peace by the lawful judgment of a prize court and of their not coming under the provisions of the preceding paragraph, be regarded as definitely confiscated; otherwise they are to be handed back or, if no longer existing, to be compensated for in money. These provisions apply in the same manner to the ships' cargoes of the nationals of the parties to the treaty (Article X, Paragraph 2).

Article XI of the Russian Additional Treaty, on the other hand, lays down that "notwithstanding any prize judgments, the sixth Hague convention of 18th October 1907, on the treatment of enemy trading vessels at the outbreak of hostilities shall apply to the trading vessels of both the treaty-making Parties with the following measures."

The reason for this was as follows. The Russians had put an embargo on German and Austrian ships several days before the outbreak of war. This being contrary to international law, the

Central Powers refused to recognize the decisions of the prize courts and wished to safeguard their claims arising out of this and of the inhibition of all telegrams sent to the captains and consulates.^{2a}

In the peace treaties of Brest-Litovsk there is no mention of any handing over of the merchant fleet to the victorious Powers.

The Commercial Treaties.

In the regulation of commercial relations the Central Powers acted on the principle that the chief thing was to secure the resumption of mutual intercourse, and that the bases of such intercourse should be made safe for as long a time as possible. But while the German representatives wanted detailed arrangements, Austria-Hungary regarded these as impracticable and wearisome. Thus the Germans proposed to keep the commercial treaty of 1904 in force until the end of 1930, but with a number of amendments in favor of Germany, *i.e.*, suppression of certain export duties, raising of the German duty on barley for fodder from 1.30 to 2 marks, raising of the duties on clover seed, hops, horses, and lubricating oil; in addition, the most-favored-nation clause was to be continued until 1940. In the event of the old Russian duties being replaced by new ones, these were, except in the case of duties for revenue only, not to exceed 50 per cent of the value of the goods. This was aimed at the exaggerated Russian duties, which often amounted to 100 per cent and more of the value of the goods.

Neither the Russians nor the Ukrainers agreed to these proposals. The Russians, indeed, wished to postpone any conclusion of a commercial treaty until the War had been ended by a general peace, and that the agreements at Brest should be regarded as merely provisional pending such a peace. Both Russians and Ukrainers declared at once that they would not renew the old Tsarist commercial treaty. The attitude of the Russians, who had no idea how

^{2a} This assertion, although it was unchallenged at Brest-Litovsk, seems to have been based upon misinformation. The Russian Government did not impose an embargo on German and Austrian ships before the outbreak of the War. Provision for the detention of enemy ships was included in the Ukase, On Rules which Russia will observe during the War, issued on 10th August 1914. As this was 28th July in the Russian calendar, the two dates may have been confused in the Austrian documentation. The action taken by Russia was in accordance with the Convention of the Hague of 1907. [Editor's Note.]

their commercial relations were to be regulated in the future, was purely negative. The Ukrainers developed their views, but they were utterly unpractical. The principle of protective duties, they said, must be replaced by the principle of *Kontingentierung*, i.e., there must be provision for the importation of a certain quantity of goods within a fixed period of time without any limitation whatever of the duties imposed. The principle of most-favored-nation treatment should be replaced by that of reciprocity, with the condition that neither of the Parties would place a third party in a more favorable position. All foreign trade was to be carried on either by the State or by central organizations under the control of the State. It would be possible, however, to make at once provisional arrangements for the exchange of goods which would be valid until the end of 1919. Both the Russians and the Ukrainians were more concerned with the maintenance of their peculiar principles than with any attempt to reach an agreement on things material.

In the end, however, both in the treaty with the Ukraine and in that with Russia, all the essential provisions of the old commercial treaties were once more put into force, including the tariffs. In the case of Austria-Hungary, the treaty in question was that of 15th February 1906. In the treaty with the Ukraine the articles of the old treaties which were again to come into force were enumerated, others being struck out. Among the latter, *e.g.*, were the final protocols to Articles I and XII, which stated that the provisions as to the visaing of passports was to apply to Jews also. This was deleted because the Ukrainian delegates said that it was obvious that the new State would make no distinctions between religions. In the same way the final protocol to Article XXII was omitted at the request of the Ukrainers, because it contained a provision that newspapers and printed matter addressed to diplomatic representatives should not be subject to the Russian censorship. The censorship, they argued, had now been abolished in the Ukraine.

In the treaty with Russia, the determination of the Soviet Government not to allow the revival of any of the Tsarist treaties was taken account of in Paragraph 1 of Annex 3, which ran as follows: "The Austro-Hungarian-Russian Commercial and Shipping Treaty of 15th February 1906, is no longer in force." But the whole of the contents of this treaty were re-inserted in the Peace Treaty by the provisions that followed (Annex 3 and Sub-Annex

1). Certain provisions, onerous for Russia, were indeed added: the Russian tariff of 1903 was not to be raised, even in those cases which were not subject to any treaty obligations (Annex 7, Clause 7), and no new export duties were to be imposed during this period (Annex 3, Clause 3). In return, the Central Powers merely expressed their readiness to enter into negotiations with a view to the temporary maintenance and extension, as far as possible, of the remissions of duties established during the War (Annex 3, Clause 9). In the treaty with the Ukraine the provisions of the Russian tariff scale of 1903 were to remain provisionally in force until the conclusion of a definitive commercial treaty and in any case until at least six months after the conclusion of a general peace.

Alterations were made in the Articles IV and VIII of the old treaty dealing with the prohibition of the import, export, and transit of goods. Whereas, that is to say, under the old treaties transit was only permitted "by the routes open to transit trade," which meant in practice that free transit to Persia was not allowed, under the peace treaties transit was permitted by all routes, and so also to Persia. As it was foreseen that the old prohibitions could not be immediately done away with after the War, it was further provided that prohibitions might be mutually retained "for weighty political and economic reasons, especially in connection with the period of transition following the War."

The provisions as to most-favored-nation treatment were of importance. The Central Powers agreed with the Ukraine and Russia for mutual most-favored-nation treatment (Ukrainian Peace Treaty, Article VII, Clause 2; Russian Peace Treaty Annex 3, Clause 2). In the Paris peace treaties the defeated States were forced to concede one-sided most-favored-nation treatment to the Allied and Associated Powers.

Exceptions to most-favored-nation treatment were made in the case of countries immediately adjoining, in consideration of the plan for an economic union between Austria-Hungary and Germany (Ukraine Treaty, Article VII, Clause 4, Russian Treaty Annex 3, Clause 4).

The Germans had desired another sort of arrangement, by which the Ukraine and Russia would have been allowed to enter into tariff alliances only with "those new States which remain in close political union with them." This would have prevented Poland,

Lithuania, and the rest from forming any close economic tie with Russia. It was opposed not only by the Russians but by the delegates of Austria-Hungary, who laid particular stress on the fact that nothing must be done to render impossible the economic restoration of Poland, which was dependent upon the Russian market. They proposed, on the contrary, that under the Peace Treaty Poland should for a number of years receive preferential treatment in her trade with Russia. This proposal, which was made with the Austro-Polish solution in mind, was for this very reason opposed by the Germans. It was not embodied in the treaty.

The treaty with the Ukraine was to remain in force until the conclusion of a definitive commercial treaty, and in any case until six months after the conclusion of peace with the Western Powers (Article VII, Clause 2). The Russian treaty contained the same provision, but with the addition that most-favored-nation treatment was to remain in force until the end of 1925 and for a further three years in the event of its being denounced later than 31st December 1922.

Both in the matter of the most-favored-nation clause and in that of the duration of the treaties difficulties arose between Austria and Hungary which were characteristic of their mutual relations. Though the Compromise (*Ausgleich*) between Austria and Hungary had been concluded twenty years before, it had never been agreed to by the Parliaments, so that the relation established by it was a provisional one. The Hungarian Government therefore demanded that the most-favored-nation clause should take account of this; and this led to long debates. Austria was unwilling, for political reasons both internal and external, to make any explicit reference to the possibility of a separation of Austria from Hungary. Hungary, on the other hand, for internal political reasons, laid great weight on this being done, in spite of the fact that Wekerle was a strong supporter of the system of Dualism. Austria proposed to speak only of the case "of a new arrangement of the Customs within one or both of the treaty-making parts." This Wekerle refused to accept, and the Emperor had to interfere. In the end it was agreed that, in the event of separation, the most-favored-nation clause in the Russian treaty should be valid for Austria and Hungary separately. A similar difficulty with regard to the duration of the treaties was settled by each of the contracting parts, Austria

and Hungary, being given severally the right to denounce the commercial treaties after 30th June 1919, by giving six months' notice.

The Brest-Litovsk commercial treaties contained no one-sided obligations save in so far as the earlier Russian Customs tariff was to be maintained, even in cases not provided for in the commercial treaties signed before the War, while the Central Powers in this respect kept a free hand. For the rest the treaties were entirely reciprocal. The Central Powers even admitted the right of Russia to tax foreign commercial travelers, as provided in the earlier treaties, while Russian commercial travelers in Germany and Austria-Hungary were untaxed. Even the relaxations of the veterinary police rules conceded by Austria in the commercial treaty of 1906 were included in the Peace Treaty with Russia. The same principle of mutual most-favored-nation treatment and reciprocity is found in the agreements as to railway intercourse: similar wares, over the same length of line and in the same direction, were to be subject only to the rates on inland goods.

The Danube Question.

Germany and Austria-Hungary were agreed that the regulation of the navigation of the Danube was in future to be in the hands of those States only which bordered on the river and on the Black Sea, and that the Western Powers which, before the War, had been represented on the Danube Commission should be excluded from it. Opinions differed, however, as to the form the new regulation should take. Austria-Hungary held that "the main interest was to secure uniform provisions for the whole Danube as far as its mouth." Germany held that the most important thing was to exclude Russia above Braila. This could only be done by separating the régime above and below Braila, by setting up a Commission for the Mouths of the Danube (which would include Russia) for the stretch below Braila, and leaving the control of the rest to the riparian States, to the exclusion of Russia. In the end the following proposition was agreed upon: "The treaty-making Parties agree that the European Danube Commission, which shall henceforth be styled the Commission for the Mouths of the Danube (*Donaumündungskommission*), shall be permanently entrusted with the administration of the whole estuary (*Mündungsgebiet*) of the Danube and shall be constituted only of representatives of States lying on the Danube or the Black

Sea, and that all questions of rights on the Danube above Braila shall be regulated by the States lying on this stretch of the river." The Ukrainian delegates, however, refused to make any statement as to the Danube Commission, as they feared that the exclusion of the Western Powers would offend the Entente, on the assistance of whose credit they were relying. Since, moreover, the insecurity of the new frontiers made it uncertain what States would in future lie on the Danube and the Black Sea, the solution of the Danube Question was in the end postponed, pending the definitive settlement of territorial questions.

The Agreement with the Ukraine for the Exchange of Goods.

In all this the main preoccupation of the Central Powers, and especially of Austria-Hungary, was—apart from the urgent desire to calm the excitement of their peoples by a successful beginning of the peace negotiations—to secure deliveries of food from the East. Russia, it was clear, was herself short of food and could export nothing; the Soviets themselves desiring to seize the grain supplies of the Ukraine. It was, therefore, only with the Ukraine that an arrangement was come to for the exchange of goods. In Article VII of the Peace Treaty it is provided that the Powers of the Quadruple Alliance and the Ukraine shall exchange their surplus of agricultural and industrial produce in order to cover current needs, the Ukraine at the same time promising "at least" a million tons of grain. Under the same Article commissions were to be set up to determine the quantity and kind of the products to be exchanged and their price, and it was agreed that the exchange of goods should be carried out either by the State or under State control.

On these bases an economic convention was at last signed at Kiev, on 23rd April, between Austria-Hungary and the Ukraine. The Ukraine undertook to deliver, at the legal prices fixed by itself, and with certain supplements (export tax), sixty million poods of grain and its by-products, fodder, pulse, and oil seed. Germany and Austria-Hungary established a central office at Kiev charged with the duty of paying for and transporting the foodstuffs either received from the organs of the Ukrainian Ministry of Food Control or purchased, under certain restrictions, by their own commissioners. Annexed to the main convention were a large number of separate agreements, *e.g.*, agreement for the delivery of eggs by

the Ukraine; agreement for the delivery of cattle by the Ukraine; a protocol on the delivery of raw materials by the Ukraine; a protocol on the delivery by the Central Powers to the Ukraine of machines and tools, ironware, textiles, chemicals and medical supplies, lists of the wares being given and the quantities fixed. There was also an agreement for the delivery of coal and mineral oil.³

The meticulous care with which these arrangements were elaborated was the more remarkable from the fact that there was no possibility of their being carried out. The Ukrainian Government undertook obligations which it was not able to fulfill; and, in spite of its impotence, it insisted on doing everything through its own agents. It refused, for instance, the suggestion of the Central Powers to combine with them in establishing a common central organization for regulating the coal supply, whether internal or imported from Germany, on the ground that this would be an interference in the internal affairs of the Ukraine. It declared whole categories of goods to be government monopolies, *e.g.*, coal, agricultural machinery, ironware and tools, textiles, paper, chemicals, and medicines. Foodstuffs and raw materials, too, might as a rule only be bought from government officials, and these, though duly nominated, were never able to supply anything.

The Central Powers pledged themselves to supply the Ukraine with 105,000 tons of coal every month, with 101,500 plows before 31st July, with other agricultural implements—including 350,000 scythes, to be delivered at once—and with other articles of industry, especially chemicals and mineral oil. On account of the dearth of clothing at home, they declared their inability to deliver woven goods unless the raw materials for these were supplied by the Ukraine. In a supplementary declaration of 16th April the Ukraine undertook not to allow the export of foodstuffs to other States, without the consent of the Central Powers, until the quantity stipulated had been delivered to the Central Powers.

Immediately after the conclusion of peace with the Ukraine, in February 1918, a whole series of agreements had also been come to in Berlin between Germany and Austria-Hungary with a view to

³ *Friedensverträge mit der Ukraine, Russland und Finnland samt den dazugehörigen wirtschaftlichen Vereinbarungen*. Published by the Generalkommissariat für Kriegs- u. Übergangswirtschaft im k.k. Handelsministerium, Vienna, 1918.

common action in the event of a resumption of commercial intercourse with the several parts of the former Russian Empire. On 4th February it was agreed that they should receive equal shares of the grain supplied by the Ukraine. On 21st February, supplementary agreements, covering 44 printed pages, were signed, regulating the division of other foodstuffs and raw materials.⁴ Special provisions were made for each separate group of wares, the purchasing centers being organized and the ultimate division between Germany and Austria-Hungary determined article by article. The task of purchasing was assigned in the main to the organizations for economic control during the War or to syndicates founded for this purpose, which were to buy through an office common to both Germany and Austria-Hungary. The perusal of this Protocol gives the reader a vision of the boundless range of the economic central controls created by the War.

Finally, there was a financial agreement between Germany and Austria-Hungary as to the means of payment for the goods bought from Russia.⁵ In addition there were arrangements made between the economic control organizations of the Central Powers for the carrying out of the Berlin Agreement.⁶

On 27th July 1918, the agreements of February were supplemented and altered by new agreements between Germany and Austria-Hungary as to their common action in Russia and Rumania.⁷ Agreements had previously been made on 19th April with Bulgaria, and on 27th April with Turkey, as to their participation in the exchange of goods with the parts of the former Russian Empire.⁸

As late as 10th September 1918, a fresh agreement covering fifty-seven pages was come to between Germany and Austria-Hungary and the Ukraine for the economic year 1918-1919.⁹ With regard to grain, it was provided that 65 per cent of the available

⁴ *Friedensverträge mit der Ukraine, Russland und Finnland samt den dazugehörigen wirtschaftlichen Vereinbarungen*, pp. 171-215. Published by the Generalkommissariat f. Kriegs-u. Übergangswirtschaft im k.k. Handelsministerium, Vienna, 1918.

⁵ *Ibid.*, p. 202.

⁶ *Ibid.*, pp. 278-362.

⁷ *Ibid.*, pp. 213-257.

⁸ *Ibid.*, pp. 259-275.

⁹ *Ibid.*, First supplement.

supplies should be reserved for home consumption and 35 per cent exported to the Central Powers, who were to receive 40,000,000 poods before 1st December and 75,000,000 poods before 15th July 1919.

Requisitions by the troops of the Central Powers were to cease, the collecting of the supplies being left to the Ukrainian State Grain Control Office. Export taxes, prices and conditions of transfer were again precisely fixed. A special agreement provided for the creation of an Ukrainian Food Control Council, on which Germany and Austria-Hungary were to be represented. Precise provisions were made also for other foodstuffs and raw materials, the Ukraine setting free for export 11,200 trucks of timber, 750,000 poods of hemp, 300,000 hides and 700,000 calf and sheep skins, as well as 250,000 poods of tobacco. In return Germany undertook to deliver 3,000,000 poods of coal a month and Austria-Hungary certain quantities of mineral oil. The Central Powers secured the transfer to themselves of 1,600,000,000 karbovantsi (Ukrainian rubles), which were being printed in Berlin, and in return placed at the disposal of the Ukrainian Government marks and crowns at the rate of 0.85 karbovanets for the mark and 0.50 karbovanets for the crown (krone), but this money was not to be used by the Ukrainians for the purchase of goods in Germany and Austria until a year after the conclusion of a general peace.¹⁰ The Central Powers agreed to support the Ukraine in carrying out a reform of its monetary standard.

¹⁰ In the economic agreement of April 1918, the value of the mark was fixed as = 75 kopeks and that of the krone as = 50 kopeks. In September, therefore, the value of the German mark in relation to Ukrainian money had risen, while that of the Austrian krone remained the same. Even more remarkable than the relative stability of the money of the belligerent States before the outcome of the War was decided, is the fact that the Central Powers ascribed a serious and relatively high value to the paper currency of a State, such as the Ukraine, which was established on very insecure foundations.

CHAPTER XIII

THE FULFILLMENT OF THE BREST-LITOVSK TREATIES

Military Operations.

IMMEDIATELY after the breaking off of the negotiations with Russia in February 1918, German troops advanced against Petersburg and also into the Ukraine. Austria-Hungary at first held aloof, as she was anxious for political reasons to avoid any appearance of continuing warlike operations. The result was trouble between the two Allies. For the advance of the Germans, and their requisitions, threatened the supply of foodstuffs for the Danube Monarchy; the German Government, moreover, refused to allow the agreements for sharing this supply to be operative in the districts occupied by the German troops. Vienna now saw that Austria-Hungary had been left in the lurch in the Ukraine, and on 24th April the Emperor Charles, who had at first refused to have anything to do with military action, ordered Arz,¹ the Chief of the General Staff, to send troops to the Ukraine, which was at once done. At the beginning of March, an Austro-Hungarian commission for the exchange of wares with the Ukraine was formed, with Count Forgach at its head, and despatched to Kiev.

It was agreed between the two Governments that, for the purpose of collecting supplies, Germany should occupy the northern half of the Ukraine and Austria-Hungary the southern. But the Germans were already established in Odessa, which they refused to hand over. Count Czernin, accordingly, suggested that the Archduke Frederick or the Archduke Eugen should be sent to Odessa, in order to secure the chief command there for the Monarchy. The Chief of the General Staff objected that it was impossible merely "on account of a few corn-cobs" to give the Archduke a command unbefitting his rank. The German Emperor demanded that the supreme command in the Ukraine should be given to the German General Linsingen, but this the Emperor Charles refused, in spite

¹ General Baron Arz von Straussenburg succeeded Conrad von Hötzendorf on the latter's retirement in 1918.

of urgent requests which the Emperor William sought to reinforce by insisting on his right as "the elder." In the end it was agreed to divide the Black Sea ports, Austria-Hungary receiving Odessa and Kherson, Germany retaining Nikolaev and Sebastopol. The request of Austria-Hungary to be assigned Nikolaev, which had railway communications with the interior, instead of Kherson, was curtly refused by the Germans. Up till 2nd March, instead of the 300 truck-loads of grain daily which had been agreed upon, but one truck-load had reached Vienna and one truck-load Budapest. These had been taken by the Army Command from captured stores and sent off "in order to convince the people by ocular demonstration of the advantages of the conclusion of peace with the Ukraine." In spite of every effort, indeed, no progress was made with the collection of supplies. On 3rd March, Count Forgach telegraphed to the Ministry for Foreign Affairs:

The setting to work of the Ukrainian grain transport is being energetically pushed. For the present requisitions are only possible with the help of the military. Owing to our belated military intervention we are in the rear as compared with Germany. In spite of this, as the Chief Army Command reports, it was possible so early as the day before yesterday, *i.e.*, at the beginning of our advance, to capture more than 100 truck-loads of grain, which had, it is true, to be handed over as supplies for the Army. I have requested the Chief Army Command, in case of further captures of grain, to set aside part of it for internal consumption, to place it ready and, if possible, to despatch it to Vienna, which Press politicians would then have to make the most of.

The departure of the military commission, instructed in every detail, for Kiev on the day after to-morrow will be another step towards putting the transport of grain into full working order.

Conflicts with the Ukrainian Government.

But it was soon clear that, in spite of military action, next to nothing could be brought in. On 23rd March Count Forgach telegraphed to the Ministry for Foreign Affairs:

As the result of all my observations in countless conferences, I have reached the unqualified conviction that in the near future we shall be able to export at the most barely half the quantum of foodstuffs which we had in view, especially grain, fats and eggs, and this only if we cease to show any consideration for the present Ukrainian Government, which

cannot be taken seriously either from the point of view of politics or economics and whose members change every day, and if, without waiting for the end of the commissional conferences, which are certain to drag out interminably, and especially without paying any attention to the prohibitions of export issued by the Government, we at once despatch the emissaries of our great organizations, especially those charged with the grain supplies, into the nearest districts occupied by our troops and under the protection of our troops at once begin with the actual trade and then with the export. The Ukrainian Commissioners despatched to the frontiers for the purpose of stopping export, and who, it may be incidentally remarked, seem to be the only officials of this Government functioning in the country, should be decidedly informed that, in accordance with the directions issued from Vienna and Kiev, export must be permitted, but reserving the right of the Commissioners to exercise an exact control in order to keep an account on their side of the exported goods. Should these Commissioners attempt to prevent the export by force, the Chief Army Command should authorize quiet but decided military action on our part. The agents of the Ukraine should be informed that the Ukrainian Government must lay any complaints arising out of this matter before the Commission sitting at Kiev. This would save me from taking futile steps at the seat of Government and, on the other hand, would force the Government in economic questions also to take account of the actual circumstances, *i.e.*, the occupation of the country by our troops, and to give us economic compensation for the military sacrifices we have made for the preservation of this Government, whereas it now prances about on its theoretical hobby-horses, (demanding) that we should give it far-reaching compensations for the export of foodstuffs. Such decided action on our part would certainly also hurry up the discussions by the Commissions, which otherwise, partly owing to their gassy theorizing (*Theoretisiererei*), the Ukrainians would drag out for ever. It would then be possible to start the larger transports of foodstuffs, by way of the Black Sea and the Danube, in agreement with the Ukrainian Government, as determined by the result of the negotiations, but only energetic action on our part can meet our most pressing needs and set in motion the export by dry land. I therefore beg to suggest to Your Excellency that you should cause the economic and military measures necessary for this purpose to be taken through the department of the Ministry for Foreign Affairs in concert with the Chief Army Command. In view of the chaotic conditions here and of our necessities, I should regard any hesitation, any lack of energy as a grave error.

In a telegram of 24th March, Count Forgach telegraphed to Count Czernin the following proposal:

So far as the business of supplies is concerned, the representatives and buyers of our Central Control Offices should be attached to the posts of our military organization down to its remotest ramifications, in order to set trade in motion, either in the form of simple barter, or of purchase for money from the local *Zemstvos* and peasants' associations, or by engaging the services of local traders, without troubling too much about the theory of State Socialism dominant in Kiev. Thus we could busy ourselves with theoretical discussions with the Government in Kiev while doing practical business with the population in the provinces. The Control, in collaboration with the officials of the *Rada* on the frontier, could give the latter a guarantee that the goods exported previous to the conclusion of the Supply Treaty (*Lieferungsvertrag*) will also be reckoned for in this.

In order that Your Excellency may come to decisions based on a judgment of the situation, the reports that have reached me from the Ukraine reveal the following: influence of the *Rada* in the country almost nil, peasants are preponderatingly Bolshevist in sentiment, expect division of the land, have plundered the large estates, seized the cattle and outfit (*Inventar*) upon them, refuse to cultivate the large estates before the land is divided, appear to have enough money, also to possess weapons. Attitude towards the troops distrustful, if not hostile; reluctant to hand over supplies, if not refusing to do so. They certainly have supplies for export, but it will be no easy job to get at them. Forcible seizure would probably lead to fights, in which we would not be without risk in view of our numerical weakness and the scattered nature of our occupation.

In spite of all these efforts, up to 14th April only 1,600 trucks of foodstuffs had been despatched by railway from the Ukraine to Austria. The disquieting situation in the Ukraine, moreover, led to strong differences of opinion between the German Government and the Supreme Army Command. The latter was exercised by the fact that the enterprise, undertaken without any very definite plan, was continually assuming larger dimensions and would absorb ever-increasing masses of troops. It was already clear that the Ukraine could not exist without the Donets district, and the Ukrainian Government wished this district to be occupied without delay in order to save Kiev and all towns, electrical works, manufactories, etc., from

a catastrophe. For this purpose great masses of German and Austro-Hungarian troops were necessary. The military demanded that the feeble Ukrainian Government should subordinate itself in all matters to the wishes and leadership of the Central Powers.

The Cultivation Order of General Eichhorn.

The conflict with the Ukrainian Government originated as follows. The spring sowing, the time for which was all but come and which is decisive for the grain production of the Ukraine, was imperiled owing to the lack of labor and agricultural implements. The German General Eichhorn, accordingly, issued strict orders that cultivation was to be proceeded with, and decreed that any contravention of these orders was to be judged by German courts. These orders the *Rada* characterized as an interference in the internal administration and pronounced invalid. The German military, who now obtained the upper hand, demanded the rescinding of this resolution by the *Rada*. The Minister President, M. Holubowicz, tried to heal the quarrel by dismissing certain Ministers to whom the Germans objected. Up till now Holubowicz had rested on the support of the extreme Social Democratic party, and his wish was to guide things in the direction of a moderate nationalism. The Press and the man in the street now combined to blame the feebleness of his Government for General Eichhorn's order affirming German jurisdiction. The Social Federalists and the Social Democrats wished to withdraw their Ministers. The Government ordered peace to be made with Northern Russia as quickly as possible. Its reply to the German ultimatum demanding the rescinding of the *Rada's* resolution was unsatisfactory; and this reply, together with the arrest of the banker Dobriy—who as Minister of Finance had been favored by the Germans—and the terrorist activities of secret societies supported by the Government, gave the pretext for taking action against objectionable members of the Administration. The Germans arrested the Ministers for War, Foreign Affairs, and Agriculture, while the Minister for the Interior was able to escape. An excess of zeal on the part of the troops led to the forcible dispersal of the *Rada* while in full session. The *Rada* and Minister President entered a formal protest.

On 30th April Skoropadski was proclaimed by the Germans *Hetman* of the Ukraine, and this was followed by fresh negotiations

about the bringing in of supplies. These also led to but a poor result. During the year 1918, 42,000 truck-loads in all were exported from the Ukraine, of which 30,757 were handled officially, the rest being smuggled. Of this not in itself considerable quantity 13,037 trucks went to Austria, among them 4,622 truck loads of grain and meal.²

However little practical importance these negotiations and operations may have, they are remarkable as showing how the gigantic economic machinery created during the War went on functioning with the utmost precision up to the very eve of the final collapse. They show also how little conscious were the organs of the administrative systems of the true situation of their States.

² A detailed account of the military exploitation of the Ukraine is given by General Krauss, the Austrian commander, in the volume, *Die Kriegswirtschaft in den okkupierten Gebieten*, in the Austro-Hungarian Series of this History.

PART III

THE PEACE NEGOTIATIONS AT BUKHAREST

CHAPTER I

THE WAR WITH RUMANIA

ON 26th August 1916, Rumania declared war on Austria-Hungary. This was not altogether unexpected, in spite of the close political relations which had existed between the two countries since the signing of the secret treaty of 1883-1884, which had ranged Rumania on the side of the Central Powers and was still in force. For, even as a neutral, Rumania had shown herself by no means accommodating on the many occasions during the War when the Central Powers were dependent upon her products, especially cereals and petroleum.¹

Immediately after the declaration of war the Rumanian troops advanced far into Transylvania, which they were able to do without difficulty, as the Hungarian frontier, owing to the exigencies of other theaters of war, had been almost entirely denuded of troops. This state of things was, however, soon remedied. After a campaign lasting a few weeks, the invaders were driven out of Transylvania, and the allied armies of the Central Powers, under the command of the German General von Falkenhayn, crossed the Carpathians, took the capital of Rumania, Bukharest, and occupied the whole of Wallachia, the southern part of the kingdom, lying along the Danube. The Rumanian Court and Government retired to Jassy, the capital of the old principality of Moldavia, which formed the northern part of the kingdom, to which their dominion was now confined. This closed the operations on a large scale on the Rumanian front, which also became stationary.

Administration of the Rumanian Occupied Territories.

During the rest of the War the Rumanian occupied territories provided the Central Powers with a number of highly important

¹ In the Crown Council in which the entry of Rumania into the War was decided upon, the Prime Minister, Jonel Bratianu, who pressed this policy, was vigorously opposed by the Conservative leaders Marghiloman and Carp. For Rumania's motives in declaring war see Mr. Marcu Beza's article "Rumania," sub-section "Rumania during the World War," in *Encyclopaedia Britannica* (12th ed.), Vol. 32, p. 304 c. (W. A. P.)

raw materials, and the organization of their administration therefore presented an important problem. By agreement between the two Army Commands a distinction was drawn between the military administration of the country and its economic exploitation.

The military administration was handed over entirely to the Germans, it being agreed that the German military governor, Field Marshal von Mackensen, should be the "sole decisive authority" in all administrative questions. He was assisted by an Administrative Staff consisting entirely of German officials. To watch over her interests Austria-Hungary had only her military representative, Colonel (afterwards General) Sandler, whose powers and functions were so ambiguously defined as to have little effect. General Tanti-loff and Osman Nizami Pasha similarly represented the interests of Bulgaria and Turkey respectively.

In economic matters Austria-Hungary was able to exercise a more direct influence; for though the exploitation of the resources of the country was also placed under the military governor, it was agreed that for this purpose he was to be assisted by an Economic Staff composed of Germans and Austrians, or Hungarians, in equal numbers. As time went on, however, it became more and more the practice for even the most important economic matters to be drawn into the sphere of the Administrative Staff, so that the Economic Staff acquired more the character of an executive organ.² Up to the very end of the occupation repeated negotiations with a view to strengthening the influence of Austria-Hungary met with no success.

² Note of the Austro-Hungarian AOK (Austrian Higher Army Command) to the DOHL (German Higher Army Command) of 24th March 1917, No. 60076.

CHAPTER II

EVENTS LEADING UP TO THE PEACE OF BUKHAREST

THE collapse of Russia and her retirement from the War involved the possibility of Rumania, too, having to sue for peace, since her position was now isolated. It was, indeed, widely believed that Rumania would ask for peace at the same time as Russia, and that the negotiations to this end might take place at the same time as those of Brest-Litovsk. This, however, was a contingency dreaded rather than hoped for by Germany, which—partly for geographical reasons, partly on account of the revolution there taking place—considered it impossible to take up the same attitude towards Russia as it was hoped to assume towards Rumania, whose natural wealth appeared indispensable to the Central Powers, at any rate until the conclusion of a general peace. In order, then, to prevent a Rumanian offer of peace, Rumania was confidentially given to understand on behalf of Germany, that negotiations would not be opened with her “so long as King Ferdinand of Rumania and the existing Bratianu Government occupied their places.” Whether as a consequence of this communication or for other reasons, the fact remains that Rumania at this time showed no serious desire for peace.

While the negotiations with Russia were already in progress and seemed to promise success, the Emperor Charles took the initiative in prompting Rumania to make peace.¹ At the end of January he sent to Rumania Colonel Randa, formerly military attaché to the Rumanian Government, with the mission of getting into touch with King Ferdinand and communicating to him an autograph letter from the Emperor, in which the latter expressed his readiness to make peace in a manner honorable to Rumania, which should at the same time preserve the Rumanian dynasty. Colonel Randa’s mission was successful. On 4th and 5th February he had interviews with the King’s adjutant, Colonel Stircea, through whom his message was communicated to the King. He received the answer that Rumania first wished to know whether all the four Allied Powers supported this step, and whether the occupied territories of Rumania would be

¹ Ottokar Czernin, *Im Weltkrieg*, pp. 354 et seq.

given up. It was this step which first brought Rumania's desire for peace to maturity.

Germany was aware that the Emperor Charles had got into touch with King Ferdinand, though ignorant that the initiative for this step had come from the Austro-Hungarian side, and here too the intention had arisen about this time of bringing about peace with Rumania. In a conference held in Berlin on 5th February 1918, Ludendorff stated emphatically that Germany had need elsewhere of the divisions stationed in Rumania, and urged that Rumania must therefore be presented with the alternative of making peace or being crushed by force. Soon afterwards M. Bratianu was succeeded as Rumanian Prime Minister by M. Averescu, who informed the Central Powers that Rumania was prepared to negotiate peace. On 23rd February 1918, the German and Austro-Hungarian peace delegates arrived in Bukharest.

Problems Involved in the Peace with Rumania.

Prior to the opening of the negotiations, each of the Allied Central Powers had drawn up a statement of its particular peace aims. Those of Austria-Hungary were as follows.

Austro-Hungarian Demands.

The first demand of Austria-Hungary was for such rectifications of frontier as would make it difficult for the sudden invasion of the Monarchy by Rumania to be repeated. This was strongly supported by the Austro-Hungarian Higher Army Command on military grounds, and by the Hungarian delegates for political reasons and as a question of national security.² The Austrian Government, on the other hand, was disposed, like the Emperor Charles, to take up a disinterested attitude towards this question. Under pressure of public opinion, however, which—especially in Hungary—was clamoring for yet larger concessions, they at last decided to make certain demands for a frontier settlement, of which the most important were as follows.

In the west the frontier was to be set back so as to include the town of Turnu-Severin in Hungary. This meant the acquisition by

² Cf. the memorandum of Count Tisza of 27th February 1918, in Ottokar Czernin's *Im Weltkriege*.

Austria-Hungary of the Iron Gates of the Danube and the ship-yards of Turnu-Severin, which were important for the military control of the lower course of the river. In Hungary, indeed, less stress was laid on this demand; there were even some Hungarian statesmen who, like Tisza, had no desire to see the Rumanian population of Hungary increased by the annexation of Rumanian towns.

To the northeast of this spot the frontier was to be set back as far as was necessary for the better protection of the coal mines in the valley of the Zsil; for the old frontiers had made it possible for these mines to be fired upon from Rumanian territory.

Still further east, the frontier was to be removed from the first ridge of the Carpathians to beyond Caimeni. In this region were situated the so-called Siebenrichter forest-lands, belonging to the Saxon University of Transylvania, the revenues of which were devoted to educational purposes, and also in part for the benefit of the Transylvanian Rumanians. The exploitation of these forests had always been obstructed by the Rumanian Government, and costly legal proceedings had been necessary in order to make it at all possible. On this account the Hungarian Government attached particular importance to this rectification of the frontier.

Further east, the frontier was to run to the north of Sinaia, which they were prepared to leave to Rumania, since a certain national sentiment was attached to it as the favorite summer residence of the people of Bukharest.

From this point the frontier was to be drawn far enough to the north for the salt-producing region of Slanik and the petroleum deposits of Okna to fall within the new Hungarian territory. Finally, the so-called Dreiländerecke, containing valuable forest-lands, which in old Rumania had been situated between Hungary and the Bukovina, which belonged to Austria, was to fall to Austria's share. These last rectifications—with the exception of the one concerning the Dreiländerecke—were particularly desired by the Hungarian Government, because since the rectification of the frontier carried out by mutual agreement in the year 1888, some Hungarian nationals owned property in Rumanian territory, in the development of which they had been constantly molested by the Rumanian authorities. In general, too, the Hungarian Government did not believe it could maintain its political and parliamentary position unless it effected by the peace an improvement of the Hungarian frontier.

But though, for the reasons above mentioned, the inclusion of these demands in the peace negotiations had been decided upon, the Emperor Charles determined that on no account were they to be an obstacle to peace. This instruction was communicated to Count Czernin, the Minister for Foreign Affairs, in the middle of February, before he left to take part in the negotiations at Bukharest as Austro-Hungarian plenipotentiary.³ Count Czernin was therefore determined to support the frontier rectifications proposed by the military authorities, and backed up by Hungary, only in so far as this could be done without making future friendly relations with Rumania impossible. From the outset, therefore, it was his intention to give way on all questions of cessions of territory which might be particularly painful to Rumania, only bringing them into prominence at the opening of the negotiations for tactical reasons, in order to make the position of the Hungarian Government easier, and possibly, too, by dropping some of Austria-Hungary's onerous demands, to enable the Rumanian negotiators to yield on other points. In order to facilitate the coöperation of the Hungarian Government in withdrawing from the original proposals, put forward for tactical reasons, Baron Szterenyi, the Hungarian Minister of Commerce, was invited to come to Bukharest. The Austrian Government sent as its representative Freiherr von Wieser, the Minister of Commerce, with instructions not to press for any rectifications of frontier.

The frontier claims of Austria-Hungary were communicated to the German authorities in February, and met with scant sympathy; for it was feared that they would endanger the peace, and would thus make it hard to enforce the German claims. The Germans, however, did not refuse to give Austria-Hungary the necessary diplomatic support.

While the Hungarian Government laid the greatest stress upon the frontier question, and was followed reluctantly by the Austrian Government, the contrary was the case with another of Austria-Hungary's claims. The Austrian Government wanted to take advantage of the conclusion of peace with Rumania to draw the latter into the projected economic alliance between Germany and Aus-

³ Telegram from Count Czernin at Bukharest to the Emperor-King Charles of 25th March 1918, and telegram of 23rd February 1918, from Count Demblin to Count Czernin.

tria-Hungary; for Austrian industry would thus have obtained easier access to Rumania as an outlet for its exports, and have gained some compensation for any damage to it which an economic alliance with Germany might involve. Prior to the negotiations at Bukharest, however, the Hungarian Government could not be induced to consent to such an economic alliance, since it dreaded the harm which might result to Hungarian agriculture. Immediately before the opening of the negotiations at Bukharest an attempt had been made to gain the consent of the Hungarian Government at least to a provisional raising of the question of an economic alliance with Rumania in the event of the Customs Alliance with Germany being carried into effect. This consent, however, could not at this time be obtained.

In this matter Germany maintained a passive attitude, as she did not want to commit herself before seeing how the projected economic alliance between the two principal Central Powers would shape itself. Meanwhile, she offered no opposition to Austria's desire. Turkey and Bulgaria were also disinterested in this question.

In making peace with Rumania Austria-Hungary had not contemplated putting forward any independent economic demands. For months past, however, the Austro-Hungarian negotiators had been aware of the claims that Germany intended to make. Their task was, therefore, confined to guarding against any claims being put forward which might be detrimental to Austrian and Hungarian economic interests, and to seeing that the Monarchy obtained a due share in any advantages gained by Germany. In addition, they insisted on certain points, such as a settlement of the Danube Question which should better ensure freedom of navigation, the suppression of irredentist agitation in Rumania, and the securing by treaty of the political rights for the Rumanian Jews. The supreme object of the Monarchy, however, was to make a lasting friend of Rumania, and to reëstablish the relations which, before the War, had developed as a result of the secret treaty of 1884.

German Demands.

The aims kept in view by the German representatives at Bukharest were primarily economic. The first of them were made known to Austria-Hungary as early as May 1917 at the so-called Kreuz-

nach conversations, in which Germany formulated the conditions under which she was prepared to give her consent to the Austro-Polish solution. These conditions included, among others, a disinterested attitude on the part of Austria-Hungary in the question of Rumanian petroleum and in that of the Rumanian railways, and certain concessions in connection with the Danube Question. To these were later added plans for the cession of part of the Rumanian State domains; a request for the prolongation of the occupation of Rumania by the Central Powers for five years after the general peace; a demand for an economic agreement under which the Central Powers would be assured of receiving Rumania's surplus products; requests with regard to commercial juridical relations, and so on.

Conversations had taken place between the two Powers about a part of these proposals, and before the Bukharest negotiations opened, the following position had been arrived at:

The most important of Germany's claims was that concerning the Rumanian oil-fields. In order to understand this claim, we must recall the situation of affairs.

Before the War, Austrian and Hungarian capital were not interested in Rumanian petroleum, but had turned their attention rather to the oil-fields of Galicia. In Germany two great capitalist groups, the *Deutsche Bank* and the *Discontogesellschaft*, were interested in the development of the oil-wells. Besides this, there were in Rumania State petroleum fields, which after the occupation of Rumania by the German military administration had been handed over to a company formed by the two principal German interests, to work them for the duration of the War. These were also the petroleum deposits belonging to subjects of enemy States, which were placed under the military administration; and finally, a few lands belonging to subjects of neutral States. A keen rivalry had raged for decades past over the State lands. They occupied an area of more than 200,000 hectares (500,000 acres) of which 70,000 had been declared oil-bearing after an inadequate geological survey of the territory. When in 1900 Rumania had been involved in a severe financial crisis, the idea of utilizing the petroleum regions to cover the deficit in the national finances was widely mooted. The Government, whether Liberal or Conservative, was always inclined to dally with this project in times of need, but the Opposition always com-

bated it resolutely. Between 1900 and 1905 a number of plans for exploiting the State lands were considered, in which the German companies and the Standard Oil Company took the leading part. The reaction of public opinion against these projects was, however, so great, that not only could none of them be carried into effect, but a series of definitely prohibitive regulations were established by legislation for the exploitation of the oil-bearing State lands; these were also aimed directly against the development of German enterprises. There were also persistent rumors in circulation that it was intended to set up a petroleum monopoly. The Germans not only regarded these projects as a danger—though they had never assumed a tangible shape—but felt the irksome restraint of the Rumanian prohibitory legislation. They therefore intended to take advantage of the Peace Treaty, in order finally to surmount this danger and get rid of this restraint. The first German plan, which had already been communicated to the Austro-Hungarian delegates during the negotiations at Brest-Litovsk, aimed at no more than a concession of the State oil-fields of Rumania to Germany as one of the conditions of the peace, while Austria-Hungary was to receive a minimum share in the exploitation of these lands.

Mention was also made of a compulsory cession by Rumania of the State domains, though Austria-Hungary was not informed of the method by which this was to be effected. Besides this, a plan was discussed for transferring the Rumanian railways to a company under German management; and, finally, Rumania was to hand over various ports and harbor-works on the Danube.

This "system of economic servitude" was from the first opposed by Austria-Hungary on political grounds. As the immediate neighbor of Rumania, the Monarchy had a greater interest in maintaining friendly relations with Rumania than Germany, which was more remote; and such friendly relations might be made difficult by imposing conditions calculated to do Rumania lasting damage. During the conversations which took place in Berlin on 3rd February 1918, therefore, the Austro-Hungarian representatives made a firm stand against the presentation to Rumania of exaggerated economic claims; and, on the 16th, the Emperor Charles telegraphed to the Emperor William, asking him to exercise a restraining influence in this sense upon the German negotiators.

When the conferences opened at Bukharest, Germany's demands

had been substantially moderated. She no longer demanded the cession of the State oil-fields, but only that they should be leased for ninety years to a company under German control; and the plan of having the Rumanian State railways handed over to a company under German management was also given up. With regard to the Rumanian ports on the Danube, all that was now demanded was that those harbor-works only which had been constructed during the War by Germany and Austria-Hungary should be transferred to a company with a Rumanian majority. Lastly, the contemplated Economic Convention was whittled down to imposing on Rumania the obligation of selling all her surplus produce to Germany and Austria-Hungary for the next five years, and offering them an option on it for a further five years.

Bulgarian Demands.

The principal aim of Bulgaria was to acquire the whole of the Dobrudja, up to the Danube. By the treaties of alliance concluded with Bulgaria, in September 1915, by Austria-Hungary and Germany, Bulgaria had been promised, in the event of Rumania's entry into the War against the Central Powers, not the whole of the Dobrudja, but merely the restoration of those parts ceded to Rumania in 1913 by the Rumano-Bulgarian Peace of Bukharest. As a condition of their consent to the annexation of the whole of the Dobrudja to Bulgaria, each of the allied Powers now claimed compensations. Germany demanded the concession to her of special rights in the port of Constanza. Austria-Hungary demanded the cession to her of certain districts in the Circle of Negotin, in the northeastern angle of Serbia, which had been assigned to Bulgaria, in the event of victory, by the terms of the treaties of alliance of September 1915. Turkey demanded the restoration of the district near Adrianople which she had ceded to Bulgaria in 1915 in order to facilitate the alliance between Bulgaria and the Central Powers.⁴

From the economic point of view, the Bulgarians attached great importance to preventing Rumania from completing the bridge over the Danube between Giurgevo and Rustchuk.

⁴ Apart from this, Turkey had no direct interest in the peace negotiations with Rumania. Her sole object was to obtain a favorable financial settlement in connection with the occupation of Rumania, and in this she succeeded.

The Rumanian Point of View.

The attitude assumed by Rumania before the beginning of the negotiations is well illustrated by a memorandum sent at the beginning of February 1918, by Marghiloman, afterwards Rumanian Prime Minister, through the agency of a Hungarian Member of Parliament (J. Musza) to Dr. Wekerle, the Hungarian Prime Minister, who communicated it to the Minister for Foreign Affairs.

"Frontier rectifications, even of an exclusively military character," runs the memorandum, "cannot be considered apart from the remaining contents of a peace treaty. It is the sum of the questions settled by a treaty which must explain, and perhaps even correct, the rectifications conceded. It is obvious that to regard frontier rectifications from the strategic point of view excludes all frontier corrections of an economic nature. In any case such rectifications are already excluded by the Central Powers' own program of 'Peace without Annexations.'"

"As regards the Danube, Rumania has always taken care to preserve freedom of communication on this river, and has also carried out the engineering works necessary for this traffic. Since the Danube trade is destined to great development, especially up-stream, Rumania will gladly assume her share of the expenses—including the important works at the Iron Gates.

"With regard to territorial questions Rumania must strain every nerve to preserve the Dobrudja, since Constanza is her only permanent sea-port. To take Constanza from her would be to deprive her of a lung. It is a great error to suppose that compensation (and a very problematic compensation, too) can be offered her in Bessarabia, where it would be possible for her to construct a sea-port. The Bessarabian coast is not suited to this, as is shown by the old port of Ackerman, which is generally silting up. If it is desired that Rumania, once she has returned within the sphere of influence of the Central Powers, should continue to be an economic factor, with the power to buy and the capacity to produce, then the Dobrudja must be left to her. Historically the Dobrudja was never Bulgarian territory. At the beginning of the 15th century it was conquered by the Turks and the Rumanian princes, and at the Congress of Berlin it was taken from the Turks in order to be handed over to the Rumanians. Ethnologically, the Bulgarians in the Dobrudja

form an almost disappearing minority, since of 389,000 inhabitants only 51,000 are Bulgarians. Reasonable men, with an eye to the future, had to consider whether it would not be undesirable from the political point of view that all ways leading from Central Europe to Constantinople should run through the territory of one State alone, Bulgaria. The Utopian scheme of keeping open a corridor along the line Cernavoda-Constanza, which might be internationalized, does not bear close examination. In times of trouble one corporal with six Bulgarians would suffice to cut it."

After a few remarks on the Bessarabian problem, the memorandum continues:

"Since the régime arising out of the War is going to draw closer the political and economic bonds between Rumania and the Central Powers, it is the future relations between Rumania and the Ukraine which will lead to such relations as may be formed between the Ukraine and the Central Powers. The system of secret agreements, such as those embodied in the treaty of 1884 between Rumania and Austria-Hungary, endangers the stability of these agreements, which are objects of suspicion to the nations. Such agreements must be concluded openly and to the knowledge of all, so that the masses may share in that sentiment of honor required for the maintenance of them.

"With regard to the serious problem of the Rumanians in Transylvania, which acted as the fulcrum of the campaign for bringing Rumania into the War, none of the Conservative governments to which I have belonged has refused fully to respect the sovereignty of all States. Since our recent experiences the most elementary prudence demands that we should continue to do so.

"With regard to the petroleum question, the Liberal régime's famous projects for a monopoly were never endorsed by the public. There can be no question of such a thing for a long time to come, and foreign capitalists have nothing to fear. The oil-fields owned by the State must be carefully protected. They will form one of the best defenses upon which we shall be able to rely, in order to provide ourselves with the resources which we shall need for restoring the economic life of the country."

The Marghiloman memorandum then urges that the question of the Rumanian throne should not be raised, and closes as follows:

“As regards our general relations with the Monarchy, there is no trace of hostility on our side. I believe that the peace will find a nation fully inclined to enter at once into the best relations with its northern neighbor without any compulsion.”

CHAPTER III

NEGOTIATIONS AT BUKHAREST

The Various Phases of the Negotiations.

OWING to the various, and sometimes divergent, interests set forth above the negotiations at Bukharest were exceedingly complicated, and a clear view of them can only be obtained by taking each subject separately. By way of introduction, however, it will be necessary to sketch the general course of the negotiations, and the phases through which they passed; for changed conditions had, from time to time, an important influence upon them.

The first complete phase was that in which none but territorial questions were discussed, which ended on 5th March 1918 with the signature of the preliminary treaty of Buftea. The second phase occupies the time between the signature of this treaty and the resignation, in the middle of March, of the Averescu Cabinet, which had initiated the negotiations. The third phase begins with the formation of the Marghiloman Government on 15th March, and ends with the initialing of the main treaties on 25th-29th March. A fourth phase, occupied with detailed business, began with the initialing of the treaties and lasted till the resignation of Count Czernin on 14th April. The fifth, and final, phase was that during which the negotiations were conducted on behalf of Austria-Hungary by Baron Burián. It was occupied with the final negotiations and the drafting of the text, and ended on 7th May with the signature of peace.

The earlier negotiations took place in the château of Prince Stirbey at Buftea. This proving too remote, the official sessions were removed to the royal castle of Cotroceni, near Bukharest; but most of the political negotiations were conducted in the houses of the German Secretary of State, Herr von Kühlmann, and the Austro-Hungarian Minister of Foreign Affairs, Count Czernin, and, later, Count Burián.

Preliminary Negotiations.

The preliminary negotiations began on 24th February with a conversation at Cotroceni between Herr von Kühlmann, Count Czernin, and M. Averescu, the Rumanian Prime Minister. The lat-

ter was informed that the Central Powers laid down as an essential condition of peace the cession by Rumania of the whole of the Dobrudja, together with other, as yet undefined, rectifications of frontier in favor of Austria-Hungary. M. Averescu at once declared these terms to be unacceptable, especially the cession of the Dobrudja, but said that the decision must be left to the King. He returned to Jassy, where he reported to the King Count Czernin's desire, as a former Envoy accredited to his Court, to have a personal interview with him.

On 27th February, accordingly, a meeting took place between the King of Rumania and Count Czernin at the railway station of Racaciani. The King complained of the oppressiveness of the conditions presented by the Central Powers, especially the cession of the Dobrudja. Rumania, he said, could not exist without access to the sea, and her only possible port was Constanza, which was now to be surrendered. Count Czernin, in reply, promised to do all in his power to secure for Rumania such facilities as would enable her to use the port as before. At the same time, he adjured the King not to reject the possibility of peace, pointing out that Rumania was incapable of resistance, that she could be forced to make peace, and that the terms of such a peace would be far harder and might even call in question the position of the King and the dynasty. He ended by demanding an answer from Rumania within twenty-four hours, *i.e.*, by 7 P.M. on 1st March, as to whether she was or was not willing to negotiate on the basis of the conditions offered.¹

Early on 1st March a telegram arrived, in which King Ferdinand requested, before answering Count Czernin's question, to be allowed to send a plenipotentiary to the Emperor Charles. The reply was, that he would have the opportunity of doing so during the negotiations which would be begun as soon as a favorable answer was received from Rumania, but that, in the event of this answer being in the negative, there would be no such opportunity, as in that case the War would be continued.

In the evening, before seven o'clock, a message was received containing the assurance that Rumania was ready to enter into negotiations, on the understanding that these were conducted in a spirit of mutual conciliation and concession, and giving the names of the

¹ Cf. Ottokar Czernin, *Im Weltkrieg*, pp. 259 *et seq.*

Rumanian plenipotentiaries. There was, however, no word as to Rumania's attitude towards the territorial stipulations already presented to her, and the Central Powers therefore demanded an explicit declaration, before noon of the next day, of her readiness to cede the whole of the Dobrudja and to accept the principle of rectifications of frontier in favor of Austria-Hungary. If such a declaration did not reach them by the hour mentioned, three days' notice would be given of the termination of the armistice.

Rumania's answer, consenting to these terms, was received on the following day. It came, however, three hours late, and she was thereupon required to sign, before the expiry of the armistice on 5th March, a preliminary peace embodying her acceptance of these terms and binding her to demobilize half her army. This preliminary peace treaty was signed at Buftea at 6 P.M. on 5th March.

The Rectifications of Frontier.

By this treaty the question of the cession of the Dobrudja was settled. That of the rectifications of frontier demanded by Austria-Hungary, however, was settled only "in principle"; of the details Rumania knew nothing and had agreed to nothing, for it was only at midday of 6th March that they were revealed to the Rumanian delegates at Buftea. Count Czernin pointed out, in conversation with them, that these frontier claims were motivated by Rumania's invasion of the Monarchy without a previous declaration of war, a danger which the new frontiers must obviate as far as possible. The Rumanian plenipotentiaries, M. Argetoianu, the Minister of Justice, and General Lupescu, pleaded that the present Government of Rumania was in no way responsible for the declaration of war, and pointed out that the Austro-Hungarian demands amounted to more than rectifications of frontier. Czernin merely replied that a change of government could not undo the past.

On 7th March the conversations were continued at Cotroceni, and on this occasion Count Czernin hinted at the possibility of concessions. As to the actual demands, M. Argetoianu repeated that they amounted, not to a rectification of frontier, but to a new frontier, and stated that he had no powers to negotiate anything of the kind. General Lupescu protested, in his turn, against the proposed frontier-line from the military point of view. He urged that there were

other ways of safeguarding Austria-Hungary's military interests. To which Count Czernin caustically replied: "You mean treaties: we have had treaties with Rumania, and know what they are worth." The Rumanians finally declared that they must return to Jassy, to report progress and obtain fresh powers.

The conversations were resumed on the 15th, this time with M. Marghiloman, who was already designated as Prime Minister and was shortly afterwards appointed. This appointment was a concession to the views expressed by Count Czernin in his talk with King Ferdinand, when he had pointed out that Rumania would obtain better terms of peace if her negotiations were conducted by a statesman friendly to the Central Powers. Czernin had, indeed, talked matters over with Marghiloman before his appointment, and had pointed out to him "that he laid particular stress on the point of arriving at permanently friendly relations with Rumania after the War, and was accordingly inspired by the desire to reduce the cessions demanded to such proportions as Rumania might indicate as tolerable to her."² The early stages of these negotiations were, none the less, difficult. In the matter of rectifications of frontier, Rumania would at first consent only to the cession of a small strip of land for the defense of Czernowitz and the Dreiländerecke, but to nothing at all in Moldavia, and in Wallachia only to trifling modifications of the frontier. This Count Czernin declared to be inadmissible. In his counter-proposals, however, he stated that, if Marghiloman undertook to form a Cabinet, he would give way in the case of the towns of Turnu-Severin and Okna.

The new proposals drawn up by Austria-Hungary in fact reduced the original frontier claims to about one-third. They secured the Iron Gates of the Danube, and then, with a view to the defense of Transylvania, demanded accessions of territory all along its southern frontier, save in certain places where the old boundary was to be preserved. The furthest point to be reached by the new frontier was Lotrica on the Roten Turm Pass and, south of Brasso, up to and including Busteni. In Moldavia the frontier, as far as the Dreiländerecke, was to remain unchanged.

On the following day, 16th March, immediately before proceeding to Jassy to take up his post as Prime Minister, Marg-

² Czernin, *Im Weltkrieg*, p. 361.

hiloman entered a further protest against this proposed demarcation of the frontier. He declared that further concessions must be made; in particular, the watering-place of Slanic must be left to Rumania, and also the town of Busteni, south of Brasov. Nor was any agreement reached at the conference held on the 22nd, after Marghiloman's return. It was not till two days later that Rumania announced her consent to the frontier rectifications, after Austria-Hungary had, in addition, given up her claims to the town of Azuga and to half the district of Lotru, southward of the Roten Turm Pass. The districts now to be ceded to Austria-Hungary were, in fact, entirely without permanent inhabitants, and were occupied only during the summer months by woodmen and shepherds. It might, therefore, be justly hoped that their cession would not entail any lasting prejudice to the relations between Austria-Hungary and Rumania.

But consent had yet to be obtained from home quarters. The Army Command raised particular objections to giving up Turnu-Severin, and the Hungarian Government would gladly have seen more far-reaching rectifications of frontier in certain places, for the protection of vulnerable points on the Hungarian frontier. It was necessary for Count Czernin to appeal to the decision of the Emperor-King Charles. "In the question of the frontier rectifications," he said,³ "difficulties have arisen on which the peace with Rumania threatens to be shipwrecked. In accordance with the commands received from Your Majesty, I therefore took pains to conduct the negotiations on this question with the Rumanians in such a way that the frontier rectifications achieved would be the result of a friendly understanding with Rumania, would leave no sting behind, and would place the Marghiloman Cabinet in a position to preserve an attitude friendly to us. I believe I am negotiating in Your Majesty's spirit by the continual concessions which I have made on all points in which a failure to consider Rumania's requests with regard to the demarcation of our new frontier might leave an open sore. In spite of this, it has been possible to achieve a material improvement of our frontiers." Count Czernin then stated the arguments of the Hungarian Government and declared that he could only undertake to support them if His Majesty gave him a direct command to do so.

³ Telegram from Count Czernin to the Emperor-King Charles, 25th March 1918.

The Emperor replied, in a telegram to Bukharest, that he took his stand, as before, on the principle that the frontier rectifications were in no way to stand in the way of the conclusion of peace. He could not therefore endorse the point of view of the Hungarian Government and empowered the Minister for Foreign Affairs to conclude the compromise with Marghiloman.⁴ The Emperor's fervent desire to arrive at a peace by agreement was, indeed, clearly apparent throughout these negotiations. His attitude was summed up in the remark made by him on the 7th March in the presence of Baron Müller, who was carrying on the Ministry for Foreign Affairs in the absence of Count Czernin. "Whatever concessions I may have to make," he said, "in order to arrive at an agreed peace, I prefer them to winning a battle."⁵

The Shipyard of Turnu-Severin.

The question of the shipyard at Turnu-Severin was also bound up with that of the frontier rectifications. When Austria-Hungary modified the frontier line originally proposed in such a way as to leave the town of Turnu-Severin to Rumania, this was done under the express condition that the shipyard at Turnu-Severin should simultaneously be leased to Austria-Hungary for a considerable period. But it was not till after the question of the rectifications of frontier had been finally settled that the agreement as to the framing of a treaty for this purpose came into effect. The negotiations on this point took place on 28th March, and ended in an agreement. By this convention, of which only a provisional draft was initialed, Rumania undertook to hand over to Austria-Hungary for a preliminary term of thirty years, under a lease dated from the day of the ratification of the Peace Treaty, the Turnu-Severin shipyard with all buildings, etc., appertaining to it, the bank of the Danube and the waters adjacent to it, in so far as might be necessary for a landing-place, and finally, the territory lying behind this stretch of the river bank as far as the railway embankment. In consideration for this, Austria-Hungary undertook to pay Ru-

⁴ Telegram from Count Demblin, at Baden, to Count Czernin, at Bukharest, 25th March 1918.

⁵ Telegram from the Minister for Foreign Affairs to Count Czernin, at Bukharest, 7th March 1918.

mania a thousand *lei* annually, and never to lease the shipyard to any other Powers. The right of leasing the islands of Simianu, Corbu, and Ostrovo Mare in the Danube, for the same purpose and under the same conditions, was also granted to Austria-Hungary. Materials consigned to the yard, and produce despatched from it to the Monarchy, were to enjoy exemption from duty in Rumania; and the yard and everything appertaining to it were not to be subject to any dues which were not already in force for Rumanian subjects at the time of the conclusion of the Convention.⁶

After this convention had been initialed, Germany put forward a request that she should be allowed to share in the use of the Turnu-Severin shipyard, with which she had carried on a traffic of her own during the War. After lengthy negotiations an agreement was reached on 6th May, the day before the definitive conclusion of peace, to the effect that Germany was to give up her separate traffic, in return for a grant of a piece of land of her own within the area leased, in order to construct a wharf of her own. In return for this, Austria-Hungary was to receive a 10 per cent share in the German shipyard at Giurgevo.⁷

The Dobrudja Question.

Although the question of the cession of the Dobrudja had already been settled as far as Rumania was concerned by the terms of the Preliminary Peace of Buftea, it involved difficult negotiations, which dragged on until immediately before the signature of the Peace Treaty.

Differences of opinion at once arose as to the interpretation of the expression "up to the Danube" in the Preliminary Peace. On 23rd March the Austro-Hungarian delegation was informed by a member of the Bulgarian delegation that Bulgaria looked upon the Danube delta as forming part of the Dobrudja, and therefore interpreted the above expression as meaning that Rumania had also ceded the Danube delta to the four allied Powers. Hence the future frontier of Bulgaria would be, not the southernmost branch of the Danube, the St. George's arm, but the most northern, namely, the

⁶ Convention between Austria-Hungary and Rumania *re* lease of the Turnu-Severin shipyards, 7th May 1918.

⁷ Agreement between the German and Austro-Hungarian Governments dated 7th May 1918.

Kilia arm. Austria-Hungary protested that the text of the Preliminary Peace, by which the Dobrudja was to be ceded "up to the Danube," could only be interpreted as meaning a cession as far as the St. George's arm. On the following day, a conversation took place between the principal delegates of the allied Powers, at which Radoslavoff, the Bulgarian Prime Minister, again put forward the Bulgarian view. But all the other delegates agreed that this interpretation would involve a fresh claim, which would have to be submitted to Rumania. Bulgaria's request was therefore refused.

The negotiations carried on over the question of the definitive assignment of the whole of the Dobrudja to Bulgaria took a more difficult turn. Since by the agreement, as above related, Bulgaria could only lay claim to a part of the territory ceded by Rumania, and not to the whole Dobrudja, it was agreed at the Preliminary Peace of Buftea that the Dobrudja should be handed over for the time being to the four allied Powers jointly. During this interval negotiations were to be carried through as to certain concessions on the part of Bulgaria, which would make it possible to come to an arrangement in the definitive peace treaty for ceding the Dobrudja to Bulgaria alone.

The Bulgarian delegates were with difficulty reconciled to this settlement. Immediately after the Preliminary Peace of Buftea they defined their position in a note of protest, and later, in various conversations, insisted that in the definitive text of the peace treaty the condominium of the four allied Powers in the Dobrudja must be omitted. It had never been contested, either by Austria-Hungary or by Germany, that the Dobrudja must ultimately be assigned to Bulgaria alone, and that the condominium was only a temporary device for bridging the period necessary in order to come to an agreement with Bulgaria on a number of other and more important questions. If this agreement proved possible during the course of the peace negotiations, the whole of the Dobrudja would be conceded to Bulgaria by the Peace Treaty. Otherwise, the question could only be settled later, at the same time as other and more important territorial questions.

Since Bulgaria was pressing for a definitive settlement, the negotiations about the concessions demanded as compensation for the abandonment of the condominium were at once set on foot in Bukharest. The matters put forward for discussion were, on the German

side, the claim for special rights in the harbor of Constanza; on the Austro-Hungarian side, a demand for concessions in the Circle of Negotin, in old Serbia, which would fall by agreement to Bulgaria; on the Turkish side, a claim for frontier rectifications in the valley of the Maritsa near Adrianople.

The Port of Constanza.

Germany had made her consent to the cession of the whole of the Dobrudja to Bulgaria conditional on her receiving certain special privileges in the port of Constanza. The negotiations upon this point were carried on directly between Germany and Bulgaria; Austria-Hungary was acquainted with this fact alone; but it was also known that in the course of these negotiations various possibilities had been mooted with regard to a cession of the harbor to Germany pending a decision as to the special privileges to be conceded to her in the use of the harbor and the railways. Austria-Hungary's efforts were solely directed to safeguarding the interests of the Monarchy as well, in case such agreements were concluded. At the above-mentioned conference of 28th February, the German and Austro-Hungarian representatives came to an agreement that Germany and Austria-Hungary should share equally in all rights acquired over the harbor of Constanza. If a company were formed for exploiting the Cernavoda-Constanza railway, the same influence in it would be conceded to Austria-Hungary as to Germany.⁸

Moreover, in putting forward her claims to Constanza, Germany was pursuing primarily tactical aims, and it was plain from different remarks of the German negotiators that they would have entirely renounced these claims if by this means they could have succeeded in inducing Bulgaria to consent to the frontier rectifications demanded by Turkey, which they felt to be entirely justified.

The Circle of Negotin.

The claim to the so-called "Corner of Negotin" was put forward by Austria-Hungary for several reasons. It would, in the first place, have been an advantage for the reach of the Danube known as the Iron Gates to fall within the territory of a single State; for

⁸ Telegram of Count Czernin to the Minister for Foreign Affairs, 28th February 1918.

the fact that the two banks belonged to different Powers was detrimental to traffic on this critical part of the river. If the Negotin "Corner" had been added to Hungary, the whole of the rapids would have lain within her borders, which would have ended the disputes arising from the fact that the Treaty of Berlin had entrusted Hungary with the execution of the works for improving navigation at the Iron Gates, whereas Article CXIII of the Vienna Final Act of 1815 had reserved the carrying out of such works solely to the riverain States concerned (in this case Serbia and Bulgaria) and this principle had been repeated, with express reference to the Iron Gates, in the Treaty of London of 13th March 1871. Austria-Hungary, moreover, had further aims. Her intention was to construct a canal between the two Danube ports of Dolni Milanovac and Brza Palanka, so as to enable river traffic to avoid the Iron Gates altogether, and this could only be done if the canal passed wholly through her own territory. She further intended to develop the three islands of Simianu, Corbu, and Ostrovo Mare into great Danube ports, which also involved the acquirement of undisputed sovereignty over the Negotin "Corner." The plan, however, came to nothing, as Bulgaria was entirely opposed to conceding the Austro-Hungarian demands.

The Question of the Maritsa Frontier.

Most difficult of all, however, were the negotiations regarding the Bulgaro-Turkish frontier in the Maritsa valley. Now that Bulgaria was to receive an increase of territory at the expense of Rumania, exceeding that which had originally been contemplated and laid down by agreement, Turkey expressed a desire to recover the territory ceded in 1915 in the valley of the Maritsa. The chief point at issue was the recovery by Turkey of Karagae, a suburb of Adrianople, which was situated on Bulgarian territory, and the removal of the Turkish frontier, which in this region—the Gümüldusina—ran along the left bank of the Maritsa, to a corresponding strip on the other bank. But though these frontier questions were of relatively small importance, Bulgaria put up the most stubborn resistance to the Turkish claims.

All endeavors to effect a compromise between the Bulgars and Turks during the Bukharest negotiations were in vain. At the con-

ference on 21st March M. Tonscheff, the Bulgarian representative, firmly refused to surrender the Karagac suburb and held to the *status quo*, by which the frontier cut, as it were, right through Adrianople. He justified this attitude on the ground that Bulgaria must command the railway. The same attitude of blank refusal was maintained at Sofia by M. Radoslavoff, the Prime Minister.⁹

On 24th March an attempt was made to arrive at a compromise on this matter in a direct conference between Radoslavoff and Talaat Pasha, the Turkish Grand Vizier, in the presence of Herr von Kühlmann and Count Czernin. Turkey based her attitude on grounds of equity. Bulgaria took her stand on her rights under the Treaty of 1915. Count Czernin tried to mediate by admitting on the one hand that Turkey had no right to the territory in question, while on the other hand he hinted that the right of Bulgaria to the whole Dobrudja was not as yet recognized by treaty, so that an attitude of concession on her part was indicated. The conference ended, however, without success. Talaat Pasha declared that he could not do without the guarantee of the desired concessions; Radoslavoff affirmed that to make any such concessions to Turkey would lead to his fall.

Settlement of the Dobrudja Question.

As a result of these difficulties, it was provided, even in the definitive text of the Peace Treaty (Article X), that the Dobrudja was to be ceded as a whole, not to Bulgaria, but to the allied Powers. In order to obviate any fresh misunderstandings, the cession of the Dobrudja "as far as the St. George branch" was expressly referred to. At the same time Rumania was promised that her trade route to Constanza would be secured.

By the terms of a separate protocol, dated 7th May 1918, it was stated that the Dobrudja would be placed under the joint administration of the four Powers on a system to be determined by a meeting of representatives of the Army Higher Commands at Bukharest. Differences of opinion which might occur in the course of these negotiations were to be subject to the final decision of Field Marshal von Mackensen.

⁹ Telegram of Count Otto Czernin from Sofia to Count Ottokar Czernin, Minister for Foreign Affairs, 12th March 1918.

Annexation of Bessarabia to Rumania.

During the peace negotiations Rumania declared her resolve to annex Bessarabia, which had hitherto belonged to Russia. An exchange of views had already taken place as to the conditions on which Austria-Hungary would consent to this. Two desires of hers had to be considered in this connection, apart from various technical demands connected with the railways, which were only of importance for the period of the War.

In the first place, the Army Higher Command insisted, on the grounds of the experience gained during the War, that a part of the district of Chotin in Bessarabia, about up to the line running from Novosielica to the point at which the Galician frontier touches the Dniester, should be amalgamated with the Bukovina for the defense of Czernowitz. No objection in principle was raised to this by Rumania. Moreover, the population of this territory was not of Rumanian nationality.

In the second place, Austria-Hungary was anxious for an agreement with regard to the navigation of the Pruth and the Dniester. If Bessarabia were incorporated in Rumania, the Pruth would cease to be the frontier river. In this case, with the exception of its upper waters, which were not navigable, it would run entirely through Rumanian territory, so that the International Commission for the Pruth could no longer exist as hitherto composed. On the other hand, by the incorporation of Bessarabia in Rumania, the Dniester, of which the navigable portion had hitherto lain entirely in Russian territory, would become a frontier river. It would hence be international; and Austria-Hungary was anxious for an international régime on the model of the Pruth Convention, in order to safeguard her interests in connection with the projected Vistula-Dniester canal. As regards the two rivers, conventions were contemplated by which Rumania was to undertake responsibility for the navigability of the rivers, to carry out no works obstructive to navigation, to guarantee freedom of navigation on the rivers (for lumber-rafts as well), to permit local river traffic (cabotage) without any restrictions (*i.e.*, traffic between river-ports of the same or different riverain States), to levy no transit dues, to treat Austrian ships on an equality with their own and those of most favored nations, to accept the principles of the new Danube Convention with regard to

levying tolls, and finally to introduce on the Pruth and the Dniester the Danube regulations as to navigation and sanitation.

Prolongation of the Occupation.

It was taken for granted by all those concerned in the negotiations that a certain measure of administrative control of Rumania would be necessary after the conclusion of the peace. There were, however, differences of opinion as to the scope of this control and the period for which it was to be prolonged.

These questions were considered in quite a general way in Berlin as early as 5th February, but the actual negotiations between the Allies did not begin till 6th March in Bukharest. At this conference the German military representatives insisted on the necessity for prolonging the occupation of Rumania at least till the conclusion of a general peace, and possibly for five years or so afterwards. The interest of the Central Powers in the Rumanian cereal crop and petroleum output was of such outstanding importance from the point of view of a prolongation of war, that it must be kept in force unconditionally. It was urged that mere treaty provisions would not adequately safeguard the interests in question and that the existing effective dominion must be maintained, since otherwise it would be impossible to overcome the passive resistance of Rumania.

In opposition to this Count Czernin put forward another view. He too granted that it would be necessary to extend the rights of the occupying Powers in Rumania up to the conclusion of a general peace, but the occupation might assume a milder form. It would be impossible entirely to exclude the influence of the Rumanian Government from Wallachia even after the peace. The efforts of the Central Powers should be directed towards achieving their aims by normal ways, through those politicians who were inclined to pursue a policy friendly to the Central Powers. This might likewise safeguard the interests of the Central Powers in the future, which brute force was powerless to do. By the other means proposed they might achieve something for two years, but would have to reckon with the whole of the future.

The German diplomatic representatives tried to mediate between the two points of view, but the impression was that they too were

opposed to any too great extension of the occupation, either in point of time or in the sphere of its activities.

When Marghiloman had formed his Government in the middle of Mareh, he was informed of the point of view of the German Army Command. He declared that if this were insisted upon, the Government simply could not carry on. About this time the Emperor Charles, who was informed of what was happening, again approached the German Emperor and requested him to exert his influence towards moderating the German demands. In his telegram the Emperor expressly recommended a policy which should make it possible to draw Rumania into the orbit of a policy friendly to the Central Powers, adding an autograph note as follows: "My Monarchy absolutely requires a friendly-disposed Rumania on her frontiers. An oppressed Rumania would always continue to be a center of greater Rumanian agitation, for nowadays a people cannot be checked by force in its national expansion. Pressure begets counter-pressure."¹⁰

The German diplomatic representatives therefore succeeded in confining within reasonable limits the original demands of the Army Command for a maintenance or prolongation of the occupation. The agreements relating to these points are contained in the fifth section of the Peace Treaty. It is there stated that the occupied territories were to be evacuated at a date to be determined later. The strength of the Army of Occupation must therefore not exceed six divisions. The administration of the occupied territories was to be kept in force, with all the powers hitherto exercised by it, up to the ratification of the Peace Treaty; but immediately after the signature of the treaty, the Rumanian Government was to be empowered to recruit the official staff by carrying out such appointments and dismissals as it should think fit. Until the evacuation of the occupied territory, the Rumanian Ministry should have attached to it a civil official from each of the occupying Governments, so as to facilitate as far as possible the transfer of the civil administration to the Rumanian authorities. The Rumanian authorities would moreover have to fall in with whatever dispositions the officer commanding the Army of Occupation might consider necessary in the interest of the

¹⁰ Telegram from Count Demblin to Count Czernin, Minister for Foreign Affairs, at Bukharest, 16th March 1918. The phrase "Druck erzeugt Gegen-druck" is a play upon words which cannot be translated. *Druck* means both "oppression" and "pressure." W. A. P.

security of the occupied territory and of his troops. The railways, posts, and telegraphs were to remain under military administration till further notice, but were to be placed at the disposal of the Rumanian population. The administration of justice was to be transferred to the Rumanian courts, except that exercised over members of the Army of Occupation, which would remain in the hands of the allied Powers. Offenses committed against the Army of Occupation would also be tried by its military courts. The return of refugees from the unoccupied into the occupied parts of Rumania would be permitted in so far as the Rumanian Government was able to assure the importation of sufficient supplies into the occupied territories. The right of the Army of Occupation to requisition cereals, leguminous crops, forage, wool, cattle, and meat from the supplies of 1918, as well as timber, petroleum and petroleum products, remained in force; but, apart from this, the Army of Occupation should cease all further requisitioning either in money or in kind after the ratification of the Peace Treaty.

By a separate secret protocol annexed to these agreements the Rumanian Government undertook to carry out smoothly the work of military transport in Moldavia and Bessarabia, and to comply with the directions of the Head of the German military railway organization, who must, however, abstain from any further interference in the administration of the Rumanian railways. Before the occupied territories were handed over to the Rumanian national authorities, the Rumanian gendarmerie was to be reconstituted. In the exercise of its right of appointing and dismissing officials after the signature of the Peace Treaty, the Rumanian Government was to comply with the wishes of the Higher Command of the Army of Occupation, when it was a question of persons who had acted in opposition to the interests of the Central Powers, or from whom such acts were to be apprehended. The civil officials replaced by the Rumanian authorities were to be given the opportunity of informing themselves as to the general dispositions contemplated by the central organization, and, if need be, to put on record their criticism of them.

Financial and Currency Regulations for the Period of Occupation.

A stipulation in Article XVII of the Peace Treaty provided for a special agreement as to the participation of the Higher Command

in the regulation of finance and currency, and particularly in the management of the Rumanian National Bank (which had the right of issuing notes) and in the head office of the People's Banks. During the course of the negotiations a financial control of Rumania was frequently spoken of; but the secret protocol dealing with questions concerning the evacuation already made it clear that the regulation of financial and currency questions would chiefly be concerned with questions of exchange, and that no infringement of the independent financial administration of the Rumanian State, districts, or communes was thereby contemplated.

An agreement in these terms was drafted at the Rumanian financial conference in Berlin on 8th July 1918. It laid down that the Higher Command would put an end to the military control of the National Bank and the Head Office of the People's Banks as soon as the central administration of both institutions had returned to Bukharest. Their books and securities should be restored to them, the latter on the basis of a rough balance drawn up by the Financial Control, and in the meantime they must recognize as binding all transactions carried out or sanctioned by the Financial Control. The agricultural loan office connected with the Rumanian National Bank was to transfer its assets and liabilities to a body to be indicated by the Rumanian Government, but whatever profits might be shown were to be at the disposal of the Higher Command. Up to the time of the final evacuation, two civil representatives of the Higher Command were to be attached to the Rumanian Government commissioner at the National Bank and the central office of the People's Banks, whose duty it would be to see that the decisions and measures taken by the two institutions were in accordance with the interests of the Higher Command.

By the same agreement arrangements were made for the creation of a central clearing-house in Bukharest for foreign bills of exchange and the like, to deal with all bills circulating in Rumania. A German and an Austro-Hungarian commissioner were to be attached to it, and it was only with their assent that bill transactions could be carried through. But the Central Powers undertook not to oppose any measures taken for improving the Rumanian exchange if these were justified by the international situation.

CHAPTER IV

THE PETROLEUM AGREEMENT

The Rumanian Petroleum Industry.

OF all the economic questions dealt with in the Peace Treaty, none had been more difficult or more contentious than that of the control of the Rumanian oil-fields. The output of crude oils from these fields, which before the War amounted to some two million tons, had become an important factor in the economic life of the Central Powers. For Austria-Hungary, indeed, this was less the case, since she could draw her own supplies from the Galician fields. Germany, on the other hand, which had no oil-fields of her own, regarded it as a matter of vital importance to secure some sort of control over the Rumanian production. In urging her claim to exercise such control, she pointed out that the great development of the Rumanian fields before the War had been due to foreign capital, of which not the least important part had been German.

The oil-fields of Rumania had been exploited ever since 1850; but for fifty years this exploitation had been conducted by the most primitive means, the oil drawn from shallow pits having to be transported in carts, over all but impassable roads, to the nearest port of embarkation. It was not till 1900 that modern methods were introduced. But drilling machinery, pipe-lines, and refineries cost money; Rumania was unable to supply the necessary capital; and this had, therefore, to be drawn from abroad. Foreign capital having done its work, however, the Rumanian Government and Parliament—whose attitude during the infancy of the industry had been wholly passive—woke up to its importance. Determined to prevent the creation of a monopoly, they refused all the offers of foreign syndicates, backed by large capital, to exploit the State domains, which were particularly attractive as forming large continuous areas over which it would be possible to carry out systematic development work, while the other oil-bearing properties were much split up.¹

¹ In prospecting for oil, a large area is essential, if only because of the entire uncertainty as to where a paying well may be struck. If the area be too small, there is always the risk, even if oil be struck in paying quantities, that the supply may be drained away by the operations of neighboring wells. W. A. P.

From about 1895 onwards the Rumanian Government consistently pursued this policy, holding the State domains in reserve. It secured its control over the industry by the prohibitive laws of 1905 and 1909, and by its exclusive command of the means of transport. Considerable duties were levied on the output of crude oil: *e.g.*, by the law of 1905, 10 to 14 per cent on the gross output, a tax of 20 francs per hectare (2½ acres) on leases, and a share of from a third to a half of the net profits. Certain provisions of the law of 1909 were yet more prohibitive. It was, for instance, enacted that lands might be leased only in parcels of 30 hectares (75 acres) or less (in some districts the limit was 10 hectares) and for thirty years, and that between lands leased to the same parties there must be a distance of at least a kilometer.

The German Proposals.

In their proposals for a settlement of the petroleum question the Germans took account of this Rumanian legislation, which they proposed to modify only in so far as their own interests might make it necessary to do so. They further proposed to supplement this legislation by provisions creating a monopoly of the trade in petroleum products, which was bound to give the party receiving it control of the whole Rumanian oil industry. These proposals, which were accepted almost without modification, were as follows.

The Rumanian Government was to undertake to lease for thirty years to the Oil-fields' Lease Company (*Oelländereien Pacht-Gesellschaft*), which was to have its headquarters at Berlin and to be under the control of the German Imperial authorities, the sole right of exploiting mineral oil or mineral oil products on the State domains, including those situated in the parts of Moldavia not occupied by the Central Powers. The latter reserved the right to transfer the rights of the Company to another company, should they desire to do so. The mention of thirty years as the term of the lease was in conformity with the Rumanian law of 1909; but this apparent concession was nullified by a further provision binding the Rumanian Government to renew the lease, on demand, for two further periods of thirty years; so that the whole period covered by it was really to be ninety years. But though, in this case, lip-service was done to the Rumanian law, the new agreement did away with the provisions of

the law of 1909 by which leases had been limited to 30 hectares of contiguous land and a quarter of the State domains were reserved for the State, a second quarter for Rumanian capitalists, and a third quarter for the principal companies established in Rumania.

The capital of the Oil-fields' Lease Company was to be divided into preferred shares, giving a right to fifty votes and receiving not more than 8 per cent interest, and common shares, among which the rest of the profits were to be divided. Since the preferred shares were at the sole disposal of Austria-Hungary and Germany, they would secure the exclusive control of the company, their mutual relations in the matter being reserved for later agreement.

In return for this concession the Rumanian Government was to receive an indemnity, the terms of which were also largely based on previous Rumanian legislation. Thus the Rumanian Government was to be empowered to levy a tax upon the output of crude oil of 8 per cent during the first, 9 per cent during the second, and 10 per cent during the third period of the lease. It was also to receive a share (amounting to not more than 25 per cent of the common stock) in the new Company, which was very inadequate compensation for its surrender of the reserved quarter of the State domains.

The Rumanian Government was further to receive a share in the profits of the Company. This was to be calculated on the basis of a dividend of from 8 to 15 per cent. In the event of the profits exceeding the agreed rate of 8 per cent, Rumania was to receive 25 per cent of any excess up to 15 per cent; in the event of their exceeding 15 per cent, her share was to be raised by a sliding scale by a further 5-10 per cent. Finally, as a concession to Rumanian interests, the Company was to be bound by the not very onerous obligation of drilling a hundred wells every five years during the first fifteen, and of keeping them in working order.

In order to secure the new Company against the danger of having its operations indirectly hampered by the Rumanian Company, special stipulations were to be made freeing the pipe-lines and railway lines from tolls and giving the Company most-favored-nation treatment in the use of all public means of communication. The Company was also to have the right to set up and maintain its own means of communication and pipe-lines, to buy wood at cheap rates from the State forests, and so on. The Company was to be incorporated

under German law, and was not to be subject to the restrictions imposed by Rumanian law on the admission of foreign corporations.

The compulsory liquidation of enemy companies, which had been carried out during the allied occupation of Rumania, was to be recognized by the Rumanian Government. Their properties were to be taken over by a Mineral Oil Industry Investment Company (*Erdölindustrie-Anlagen Gesellschaft*), with a constitution similar to that of the Oil-fields' Lease Company.

The control of the Rumanian petroleum industry by Germany, for which these agreements paved the way, was to be completed by the creation of a commercial monopoly, which was to be placed in the hands of a company, likewise formed in accordance with Rumanian law, but in a manner to be definitely determined later by Austria-Hungary and Germany in concert. The capital of this company was also to consist of preferred and common shares, 25 per cent of the latter being placed at the disposal of the Rumanian Government.

This Company was to have the exclusive right of dealing with all the crude oil produced in Rumania; and in particular was to have the sole right of exporting petroleum and petroleum products from Rumania. The Rumanian Government was not to restrict or prohibit exportation, nor to hamper it by export duties or other imposts. The price was to be fixed half-yearly by the Company. The Company was to be guaranteed all the facilities necessary for carrying on its business, *e.g.*, the right to the free use of public highways and State wharves, and the right to expropriate lands and buildings. The Company had also the right to undertake the distribution of the crude oil among the different refineries. The construction of new refineries and the enlargement of the existing ones were also to be made dependent upon the consent of this Company.

In return for the concession of this monopoly, the Rumanian Government was to receive 3.40 *lei* for every ton of crude petroleum exported, and 4 *lei* for every ton of petroleum products. The Company was to pay no other taxes or dues.

Participation of Austria-Hungary in the Petroleum Convention.

It had never been possible to arouse any particular enthusiasm in Austria-Hungary for these plans of the German Government. It was feared that to place the oil-fields, which were regarded by the

Rumanians as their greatest national treasure, in such a state of subservience would lead to constant friction. There was also a certain anxiety lest the intensive exploitation of the Rumanian State domains, which would follow if these agreements were carried out, should interfere with the interests of the Galician producers and the Austro-Hungarian refineries.

The struggles in the Rumanian Parliament over this question ever since 1900 were too well known for there to be any hope that Rumania would ever be reconciled to such a foreign thorn in the flesh of her economic life. Germany, however, attached so much importance to it that Austria-Hungary felt bound to drop all opposition when the original plan of a cession of the actual ownership of the State lands had been abandoned.

These proposals, if carried into effect, were bound to give Germany and Austria-Hungary a predominant and impregnable position in the Rumanian petroleum industry, which was sure to be of the greatest importance both on military grounds and because it would provide Germany with petroleum products and the Austro-Hungarian refineries with crude oil. Hence from this time onwards Austria-Hungary's aim was to participate in the advantages thus offered. The decisive negotiations on the point took place on 27th and 28th February in Bukharest. Their upshot may be summarized as follows:²

The constitution of the Company as projected did not admit of safeguarding Austria-Hungary's influence through a share in the allotment of preferred shares; she must therefore endeavor to secure this end by the acquisition of common shares. Austria-Hungary therefore consented to leave the preferred shares to Germany, and tried to safeguard her influence by proposing that questions of fundamental policy, also questions involving Austro-Hungarian interests, and finally the appointment of the directors, should not be settled without the consent of a commissioner to be appointed in consultation with the Austrian and Hungarian Governments. The possession of common stock carried with it a share in the profits, a third of which were guaranteed to Austria. Austria-Hungary was promised a quarter of the amount of crude oil left over after deduct-

² Telegram of Count Czernin to the Ministry for Foreign Affairs, 28th February 1918.

ing what was wanted for Rumania's internal consumption. Austria-Hungary was also guaranteed a quarter share in the event of the extension of existing refineries or the founding of new ones.³

These agreements arrived at between Germany and Austria-Hungary were attacked in Germany, and in interested quarters in Austria and Hungary were at first considered inadequate. In Germany the Imperial Economic Department considered that the privileges of the Austrian and Hungarian commissioners would hamper the freedom of action of the companies. It was also considered that the share of the output of crude oil promised to Austria-Hungary was excessive, and that she would thus acquire too strong an influence in the development of the Rumanian mineral oil industry. On 26th March the German delegates received instructions bearing on this point. On the other hand, Austria-Hungary's chief ground for complaint was that she was not to hold any of the preferred shares; she also considered her 25 per cent share in Rumania's export surplus too small, and regarded with suspicion the provision in the agreement for the extension of the existing Rumanian refineries or the founding of new ones, which would encroach upon the activities of the Hungarian and Austrian refineries. But when technical experts were sent to Bukharest to reconsider this question, it proved possible to convince them that this criticism was not justified.

With regard to the preferred shares, it was pointed out that they did not carry with them a share in the profits of the business, but that their holders had the decisive voice in the management of the Company. Since Germany was determined to secure her control, she desired, in the event of her conceding part of the preferred shares to Austria-Hungary, to retain or purchase a large enough holding of the common shares to make her majority safe. In any case Austria-Hungary would only hold a minority position; and it was clear that to be represented by a commissioner possessing the right of veto would safeguard her interests more effectively than, for instance, the possession of 49 per cent of all the shares.

With regard to the share of crude oil promised to Austria-Hungary, which was alleged to be too small, it must be pointed out that, by a departure from the original plan, the 25 per cent was to be

³ Agreement of 6th April 1918 as to the share of Austria-Hungary and Germany in the Rumanian petroleum industry.

reckoned on the basis of the entire export surplus of Rumania, the output of the old German petroleum companies in Rumania being included in this amount. Thus 25 per cent of the total export surplus was more than a third of the output of the oil-fields to be included in the new Company, after satisfying the demands of Rumania.

Finally, with regard to the Rumanian refineries, it was pointed out that Austria-Hungary had no means of preventing the crude oil falling to Germany's share from being refined wherever Germany should think fit.

The Convention as to the share held by Austria-Hungary and Germany respectively in the Rumanian petroleum industry, which was actually signed on 6th April, consequently remained unchanged in essentials. It also contained a provision that a third of the superintending board or members of the administrative council who were to be elected by the holders of preferred shares was to consist of persons appointed by Austria and Hungary. Two of each of these categories of persons were to be attached to the companies concerned as commissioners for Austria and Hungary. It was further laid down that the already existing Rumanian refineries, in which Germans, Austrians, or Hungarians held a majority interest, were to be guaranteed employment in the conversion of the crude oil, in proportion to their capacity. In the extension of refineries or the construction of new ones Austro-Hungarian interests were to be considered in a ratio of 1 to 4 by comparison with the German.

Negotiations as to the Petroleum Convention.

The negotiations over the petroleum agreement were carried on exclusively by Germany. They were influenced by the opposition which the German projects met with from the German companies operating in Rumania before the war (the *Deutsche Bank* and *Discontogesellschaft*). It is astonishing that these two companies were actually not consulted by the German Government about this question, a fact which aroused a widespread impression that these plans were in part aimed against the position of these two concerns in the Rumanian petroleum industry. At the time of the peace negotiations at Bukharest it was already known that both companies had drawn up exhaustive memoranda expressing their objections to the

plans under discussion; but the arguments they advanced were not publicly known till later.

In view of the opposition aroused even in Germany itself by the German projects, the German representatives were anxious to hurry on the signature of the agreement. There was always a danger that certain influential quarters in Germany, and particularly the *Reichswirtschaftsamts* (Imperial Economic Department) might adopt the essential, and in many respects justifiable, objections adduced by the *Deutsche Bank* and the *Discontogesellschaft*. Every nerve was strained, therefore, to complete the treaty as soon as possible. It was mainly due to this that a number of the treaties which had been drafted by that date—and among them the Petroleum Convention—were initialed at the end of March.

In the meantime fresh difficulties had arisen at the last moment. On 29th March, when the negotiators met to initial the treaties, the Rumanian Minister for Foreign Affairs, Arion, announced that owing to the provisions relating to the commercial monopoly he was entirely unprepared to initial the agreement, and threatened to resign. Repeated attempts were made to overcome these difficulties, but each one met with some obstacle or another. It was finally conceded to the Rumanian Government that, after the signature of peace, fresh negotiations should be opened with a view to finding some other way, more convenient to all parties, of arriving at the aims contemplated in the convention or in its provisions relating to the commercial monopoly. If by 1st December 1918 no other agreement had been arrived at between Germany, Austria-Hungary, and Rumania, the monopoly as already agreed upon was to come into force.

This additional article did not, however, suffice to allay the uneasiness of the Rumanian Minister for Foreign Affairs, who said that if the Convention were not replaced by another by the 1st December, he would resign. In order to prevent the peace from being wrecked on this question, M. Marghiloman, the Prime Minister, announced that he was prepared to initial the Convention.

CHAPTER V

AGREEMENTS: ECONOMIC AND SOCIAL

Convention for the Exports of Food and Raw Materials.

ONE of the chief aims in view in concluding peace was that of securing for the Central Powers the surplus produce of Rumania. The importance of this question may be measured by the fact that before the War Rumania exported annually on an average food-stuffs and raw materials to the value of more than 600 million *lei*, including 12 million quintals ($1\frac{1}{4}$ million tons) of cereals and 8 million quintals (800,000 tons) of maize. It was only by drawing on this source of supply that it had been possible to avert the catastrophe which had threatened in January 1918, with regard to the feeding of Austria-Hungary. During February and March an average of from 200 to 250 truck-loads of grain were sent daily from Rumania into Austria-Hungary. When, in April, Germany demanded the return of the grain which had been lent to the Monarchy, and the Rumanian contribution fell to 90 truck-loads a day, the grain necessary to meet the urgent demand could not be raised in Austria. The famine was so severe that on 30th April the Government seized the maize which was on its way to Germany *via* Austria-Hungary by land and water. This act of force aroused great excitement in Berlin. Hindenburg protested in the strongest terms, and Prince Hohenlohe, the German Ambassador, announced that until this unfortunate incident was cleared up, there could be no question of the contemplated visit of the Emperor Charles to the Emperor William.¹

When the matter had been adjusted, the Rumanian deliveries of grain to Austria-Hungary were again raised to 200 truck-loads a day, Germany temporarily renouncing the restitution of the grain she had advanced.

It was of the highest importance for the Central Powers to secure a continuation of the transport of foodstuffs even after the conclusion of peace with Rumania. This was effected by the Convention

¹ Telegram of Hohenlohe to the Minister for Foreign Affairs, 6th May 1918.

for the Export of Foodstuffs and Raw Materials.² By this Rumania undertook to deliver to the Central Powers in the years 1918-1926 her surplus grain, leguminous crops, forage, cattle and meat, raw material for the textile industry, wool, and oil-seeds. The surplus crops of 1918 and 1919 were purchased by the Central Powers, and they received an option on this surplus for the following years. Prices were fixed for the harvests of 1918 and 1919. Prolonged negotiations took place as to their amount, the upshot of which was very favorable for Rumanian produce under the conditions then existing. Wheat and rye stood at 38 *lei*, maize at 29 *lei*, peas at 42 *lei*, beans at 47 *lei*, flaxseed at 75 *lei*. For the following years it was agreed that the prices should be fixed by a joint Commission on the basis of the market prices ruling in other countries. The fixing of the quantities which should be considered as a "surplus" over Rumania's home demand, was based on the ratio of Rumania's production to export in the years 1908-1913. Those products to which Austria-Hungary laid claim were not to be exported to other States. She also bound herself to prohibit the export of these commodities.

As regards the surpluses of fruit, wine, and other agricultural products not expressly referred to, Rumania likewise undertook to deliver these commodities to the Central Powers in 1918, deliveries in future years to be the subject of special agreements. The Central Powers assumed the responsibility for delivering to Rumania agricultural machinery and implements and the like.

The organization of this exchange of commodities was to be undertaken by a Rumanian export office and a center to be established in Rumania by Germany, Austria, and Hungary. In order to meet the payments due under this Convention, the States which were parties to it declared their readiness to place at each other's disposal the necessary credits in exchange for the grant of a credit in the currency of the other country.

Reciprocal Arrangements for Credits.

The above-mentioned settlement of the Economic Agreement dealing with reciprocal credits was arranged in detail at a conference with the Rumanian financial delegates held after the conclusion of the peace negotiations in Berlin (Convention of 8th July 1918). This

² *Deutsch-Oesterreichisch-Ungarisch-Rumanisches Sonderabkommen über wirtschaftlichen Einzelfragen*, part II.

Convention lays down that the credits called for in connection with the Economic Agreement should be supplied for Austria-Hungary by the Austro-Hungarian Bank in *kronen* and by the Rumanian National Bank in *lei*; but both banks were empowered, when these credits were drawn upon, to demand proof that the sum demanded was required to meet payments in connection with the carrying out of the Convention. In order to meet the expenditure contemplated each State was to grant to the other a sufficient credit in its own currency—i.e., Austria-Hungary in *kronen* and Rumania in *lei*.

Moreover, Austria-Hungary declared herself ready to supply Rumania on demand with the *kronen* which she might require for payment of the expenses of her prisoners of war, to meet the sums allotted for public works carried out in Rumania with Austro-Hungarian materials, and to pay the interest on Rumanian bonds held in Austria or Hungary. The sums made available under these three categories formed an advance at 5 per cent, to cover which Austria-Hungary received on 30th June 1919 a credit in *lei* at the Rumanian National Bank. This could be drawn upon to pay for the Austrian and Hungarian imports from Rumania.

Should Austria-Hungary require any more *lei*, apart from the Convention, to pay for her imports from Rumania, Rumania would place them at her disposal at the National Bank in return for the opening of an equivalent credit in *kronen* at the Austro-Hungarian Bank.

As to the rate of exchange, it was stabilized up to the end of June 1919 at 100 *lei* to 113 *kronen*, then the *lei* exchange at Vienna, or, in case of great fluctuations, at the mean between the exchange value of the *lei* at Vienna and of the *krone* at Bukharest.

The reciprocal credits both bore interest at 5 per cent. At the end of each year they were to be balanced. The discrepancy between the total sum of the credits on either side must not exceed at any time 1,500 million *kronen* or the equivalent in *lei*. The final liquidation of the credits was to follow within a half year after the expiry of the Convention, i.e., at latest by 31st December 1927.

In case Rumania were to require any foreign currency, the Austro-Hungarian Bank declared its readiness to place at the disposal of the Rumanian Government, so far as it was in its power, bills for meeting her necessary economic demands up to the amount of her credit and secured upon it.

The bank expressed the hope that it would in general be able to meet Rumania's demands, but reserved to itself the right of examining in each case whether it was to provide the required amounts in bills out of its own resources or meet Rumania's demands by some other means. The Austro-Hungarian Bank declared itself unreservedly prepared to supply or procure bills for the above-mentioned purposes in a proportion of up to 10 per cent (or for a year after the general peace, up to 5 per cent) of the total balance of the amounts standing to the credit of Rumania during the period of the Convention, in instalments, which should not amount to more than 5 million *kronen*.

Reestablishment of Peace and Friendly Relations.

So far we have described those special agreements which had to be made upon important separate questions. Besides these the peace settlement and the additional treaties which supplemented it included a large number of distinct provisions of grave import. They dealt with politico-juridical relations, economic relations, financial, railway, and steamship matters. The Peace Treaty began by declaring the state of war to be at an end. The parties to the treaty were ready from that time onward to live in peace and amity with one another (Article I). In the supplementary treaty dealing with economic policy, it was added that with the conclusion of peace the war in the economic and financial sphere also ended. All the States who were parties to the peace assumed the obligation of declining to participate, either directly or indirectly, in any measures aiming at a prolongation of hostilities in this sphere, and of preventing any such measures within the bounds of their States by every means in their power (Economic Additional Treaty, Article I). The ordinances enacted by the separate States, in virtue of which the subjects of the rest were subjected to special legislation with regard to their rights as individuals, in consequence of the state of war (military laws) ceased to be applicable (Politico-juridical Additional Treaty, Article VI). Copyrights and patents, together with all concessions and privileges, and similar claims based upon public law, which had been affected by war-time legislation, were again put in force. Indebtedness was also generally recognized again, the period of limitation being prolonged by the period of the War.

The Old Treaties Put in Force Again.

The question of again putting in force the treaties, pacts, and conventions with Rumania which were in force before the War was settled by Article IV of the Politico-juridical Additional Treaty. The principle was established that treaties dealing with administrative matters should regain their force on the ratification of peace. As regards the political treaties on separate questions and the collective treaties dealing with political matters, the question of their revival would be reserved for later settlement.

In addition to these provisions of a general nature, Article V pays particular attention to the necessity of placing the reciprocal protection of rights under the copyright and patent laws on a new treaty basis. The obligation was therefore expressly stated of arriving at agreements not only by means of a new settlement of the relations of this nature between Rumania and the two States of the Monarchy, but also by a settlement by treaty of the copyright question as between Rumania and Hungary. Since 1906 there had already existed a Copyright Convention between Austria and Rumania, which would in any case come into force again on the ratification of the peace.

Suppression of Irredentist Agitation.

In order to safeguard the friendly relations now restored from being imperiled in the future, a provision was inserted in the treaty (Politico-juridical Additional Treaty, Article XV) that the contracting Powers would not suffer on their territory any agitation, propaganda, or other such actions as might, directly or indirectly, be aimed against the inviolability, the law and order, the security or public peace of the others. They pledged themselves in particular to forbid such activities as above enumerated to societies or individuals, to prevent the collection or expenditure of subscriptions or subventions for such purposes, to take care that only those school-books and aids to instruction were made use of whose contents did not come into conflict with these provisions, and in case of need to pass legislation involving punitive measures for the prevention of the agitation described in this article within a year of the ratification of the treaty.

Consular Convention.

For many years past Austria-Hungary had been anxious to put her consular relations with Rumania on a solid and modern basis, but these efforts had always come to grief owing to Rumania's negative attitude. The opportunity was now seized for Austria-Hungary and Rumania both to bind themselves to initiate negotiations within a year, with a view to concluding a Consular Convention on the model of the similar treaties concluded in recent years between Austria-Hungary and other States.

Equality of Creeds: The Jewish Question.

In 1878, by the Treaty of Berlin, the recognition by the Powers of the independence of Rumania had been made conditional on the establishment and maintenance there of complete religious equality. Apart from the consistent ill-treatment of the Jews, which will be dealt with later, this condition had been recently violated in the case of the Magyar-speaking Protestant churches in Bukharest. It was this latter fact which was the immediate motive of the Central Powers in introducing into the Peace Treaty provisions amplifying the obligations imposed upon Rumania by the Treaty of Berlin. By Article XXVII it was laid down that all forms of worship were to be assured the same liberty and the same protection under the law as the Rumanian Orthodox Church, and that this principle was to be firmly maintained in the case of the foundation of pastoral cures and congregations or of schools.

The settlement of the Jewish Question required longer discussion. For more than fifty years the position of the Jews in Rumania had attracted the attention of the Powers, and Article XLIV of the Treaty of Berlin had been formulated in order to put a stop to the persecution and deprivation of civil rights to which they had been subjected.³ Had it been carried out it would have done so. During the succeeding years, however, the Rumanian Government managed

³ "Rumanian politicians preached a nationalism limited exclusively to indigenous Christians, and they were strongly supported by all those who felt the commercial competition of the Jews. Thus, although the Jews had been settled in the land for many centuries, they were by law declared aliens. This was done in defiance of the Treaty of Paris of 1856 and the Convention of 1858 which declared all Rumans to be equal before the law. Under the influence of this distinction the Jews became persecuted, and sanguinary riots were

to exclude the Jews from many business careers, and generally to continue to treat them as enemies, by means of legal decrees and ordinances in which they were not specifically named. Later attempts to improve their position were no more successful. The strong remonstrance addressed to the Rumanian Government by the United States in 1902, for instance, remained without effect.⁴

During the negotiations at Bukharest, then, the representatives of Germany and Austria-Hungary also addressed themselves to this question, in the hope of finding a formula which should guarantee the due application by the Rumanian Government of the principle of religious equality laid down in the Treaty of Berlin, without exposing Rumanian nationality to the dangers which might arise from the sudden admission of this mass of Jews to full political rights. The first formula, presented by the Germans, was as follows:

In Rumania difference of religious creed shall not affect the rights of the inhabitants and more particularly their political and civil rights. This principle shall be applied in proportion as the populations excluded from the rights of citizenship⁵ are admitted to share in these rights.

This formula seemed too colorless to the Austro-Hungarian delegates, who believed that it would be as ineffective as the provision made by the Treaty of Berlin. The Marghiloman Government, for its part, saw the necessity for making some concessions to the Jews, who had done their share of fighting during the War; but it hesitated between a measure conferring citizenship upon all Jews domiciled in Rumania and one confining this to those whose parents had been thus domiciled, *i.e.*, to the second generation. In the end, the following formula was agreed upon and adopted as Article XXVIII of the Peace Treaty:

In Rumania diversity of religious creed is to have no influence upon the rights of the inhabitants, and in particular upon their political and civil rights.

This principle was to be carried into effect by the grant of citizenship to those sections of the population which had hitherto

of frequent occurrence." See Lucien Wolf, in *Encyclopaedia Britannica* (11th ed.), *s.v.* "Anti-Semitism" (Vol. II, 140 d). W. A. P.

⁴ At this time there was a great exodus of Jews from Rumania, many of whom went to the United States. W. A. P.

⁵ *Staatenlos*, literally "State-less."

been deprived of it, including the Jews who had hitherto been treated as aliens. For this purpose a law was to be passed in Rumania, pending the ratification of the Peace Treaty, by which all persons not citizens of any State, who took part in the War, either as combatants or in some subsidiary service, or were born in the country and domiciled there, or who were born of parents also born there, were to be regarded henceforth as Rumanian subjects, with full rights as such. The grant of Rumanian citizenship was to extend also to the wives, widows, and children under age of such persons.

Commercial Convention.

Annexed to the main Treaty was an Economic Convention dealing with those questions which, by the practice of international law, are usually settled by commercial treaties. A Commercial Treaty was, indeed, signed by Rumania at the same time as the Peace Treaty. In the preamble to this the principle was reasserted that there was to be no continuance after the peace of economic warfare, and it was accordingly stipulated that the contracting parties would not hamper each others' commerce by the imposition of higher import duties. The Commercial Treaty concluded in 1909 between Austria-Hungary and Rumania was again put in force, with a series of modifications and subsidiary provisions, and extended till 1930. Austria-Hungary, however, reserved the right to denounce the duties granted to Rumania at three months' notice beginning from September 1919.

This provision was inserted solely with a view to the economic relations between Austria and Hungary, which were as yet not definitely settled. The Governments of these two States had, indeed, come to an agreement as to the terms of the new *Ausgleich*, but this had not yet been ratified by the respective Parliaments, and could not be so ratified so long as there was a possibility of its terms having to be altered as a result of the negotiations being conducted with Germany with a view to an economic alliance. Since the economic relations between Austria and Hungary had only been settled provisionally, there was also the possibility to be reckoned with that Hungary, on the expiry of the temporary arrangement, might become an independent Customs area. Any binding engagements imposed upon Austria and Hungary jointly would make this right illusory. The right to denounce the treaty with Rumania at three months' notice guaranteed a free hand to Hungary.

The importation of live-stock from Rumania—which before the War had been a delicate question, owing to the opposition of the agrarian interests in Hungary—was allowed up to the end of 1919, when the matter was to be made the subject of fresh separate agreements.

Rumania undertook not to raise the Customs duties in force under the treaty or those imposed by her own authority until 1930. Against this provision Rumania pleaded the financial necessities of the State, which might make such an increase necessary. Austria-Hungary met this objection by conceding the right to raise the duties on a number of articles—*e.g.*, coffee, tea, colonial produce—in the export of which she was not greatly interested. The duties imposed by Rumania on imported goods which were also produced in the country were, moreover, very high, which detracted from the value of fixing the duties till 1930. On the other hand, provision had already been made for a considerable increase of trade with Rumania by the agreements for the delivery of foodstuffs and raw materials, as well as by the terms of the Petroleum Convention. It was therefore decided to postpone the conclusion of a new commercial treaty to a later date.

It was only on the Rumanian side that duties were to be fixed, the Central Powers retaining a free hand in respect of their own. Moreover, to guard against any damage to Austro-Hungarian interests by high internal duties in Rumania, it was stipulated that any such duties on articles of importance to Austria-Hungary should not amount to more than 10 per cent of the Customs duties, and that the class “Metals and Machines” in the tariff should be free of such duties.

Finally, Rumania bound herself not to increase the export duties on timber and hides, and only to levy export duties on the foodstuffs and raw materials to be delivered under the terms of the Economic Agreement at the cost of the seller. Timber from the frontier districts was provisionally to enjoy the same advantages as previously when imported into Rumania.

Acquisition of Real Estate by Foreigners in Rumania.

Under the Rumanian Constitution aliens were unable to acquire any real estate on Rumanian territory. This provision, which had no counterpart in Austrian or Hungarian law, not only hindered the erection of factories in the country, but was felt as oppressive

by many Austrian and Hungarian subjects who had inherited land in Rumania. A provision was, therefore, inserted in Article VIII of the Economic Convention annexed to the Peace Treaty, by which Austrian and Hungarian subjects, and all industrial companies incorporated under Austrian and Hungarian law, were to have the right to acquire, possess, and dispose of real property in the towns. This provision had met with long opposition from the Rumanian plenipotentiaries, and it was found impossible to persuade them to extend this right, in the same degree, to real property in the rural communes. It was agreed, however, that Austrian and Hungarian subjects were to be allowed to lease land in the rural communes for a term of 30 years, renewable for two further periods of 30 years, for the purposes of trade, industry, and transport services. Those Austrian and Hungarian subjects who already owned landed property of any kind in Rumania at the time of the Treaty were to have the right of possession upheld, without any limitations, for themselves and their heirs "in accordance with the Rumanian land laws." This last provision represented an obvious compromise, and was rendered practically ineffective by the reference to Rumanian law.⁶

Rumania and the Danube Navigation Convention.

The principle of the free navigation of international rivers, established in 1815 by Articles CVIII-CXIII of the Final Act of the Congress of Vienna, was applied to the Danube in 1856 by Articles XV-XIX of the Treaty of Paris. For the carrying out of these provisions a mixed international Danube Commission was set up, composed of delegates of the signatory Powers, which had its headquarters at Galatz and whose jurisdiction extended at first only over the mouths of the Danube.⁷ This Commission had been appointed provisionally for two years only,⁸ but its mandate was constantly prolonged, and it was still active at the outbreak of the Great War.

⁶ Agreements followed for the complete resumption of postal and telegraphic intercourse. As these have no special interest, they have been omitted from the translation. W. A. P.

⁷ It was extended in 1878, by the Congress of Berlin, from Isakeea to Galatz (26 m.) and in 1883, by the Treaty of London, to Braila, the highest point to which large sea-going ships ascend the river. Ed.

⁸ *I.e.*, the time considered necessary for the carrying out of its mandate, which was "to designate and cause to be executed the works necessary below

In addition to this, the Treaty of Paris had also established a Commission of the riverain States to watch over freedom of navigation along the whole course of the Danube. This Riverain Commission drew up the Navigation Act of 7th November 1857, which limited *cabotage*—i.e., navigation between the Danube ports of the same State—to the riverain State concerned, but allowed other States to navigate only from the open sea, and made no mention whatever of tributary rivers. It freed navigation, however, from various tolls, dues, and other imposts. When, on 16th August 1858, the Conference of Paris decided against this limitation of the right of *cabotage*, the Riverain Commission made the concession of leaving each riverain State free to decide whether it would admit foreign flags to this traffic or not. This Navigation Act was recognized and put in force by Austria-Hungary, but not by Rumania.

Since this time there had been no new international regulation of the Danube, except as regards the mouths. There had been numerous international agreements dealing with this specific work of the Danube Commission; but the attempt of the Conference of London, in 1883, to put the whole navigation of the river under international control came to nothing. It broke down on the deep-seated antagonism between the views of Austria-Hungary and Rumania; the "Mixed Commission" contemplated by the Treaty of London never met, owing to the vehement opposition of Rumania; and each State continued to exercise independent control of its own section of the river.

Rumania had taken advantage of this to assert her territorial rights and to ensure to her own shipping far-reaching privileges on her own section of the Danube, which had led to much friction with the other riverain States, and had made all loyal coöperation between the various shipping enterprises impossible. One of the tasks undertaken in concluding the Peace Treaty with Rumania was to change this situation for the better.

By Article XXIV of the Peace Treaty Rumania now undertook the obligation of applying the Danube Navigation Act of 1857 to the Rumanian portion of the Danube also. It was moreover proposed

Isakteha (Isakeca) to clear the mouths of the Danube as well as the neighboring parts of the sea, from the sands and other impediments which obstructed them, in order to put that part of the river and the said parts of the sea in the best possible state for navigation."

that Germany, Austria-Hungary, Bulgaria, Turkey, and Rumania should agree upon a fresh Danube Navigation Act, in order to draw up uniform regulations as to legal rights and obligations on the whole of the navigable portion of the river. Negotiations with a view to this were already proceeding between Austria-Hungary and Germany. Rumania was also admitted to the later negotiations on this question at Munich.

With regard to the previously existing Danube Commission, the scope of which only comprised the mouths of the Danube as far as Braila, it was laid down that it should be kept in being under the name of the "Danube Mouths Commission" as a permanent organization with its previous powers. In future, however, this Commission was to consist, not of representatives of the signatory Powers of the Treaty of Paris, but only of representatives of those States which lie along the Danube or on the European coasts of the Black Sea.

During the discussions leading up to this settlement, two questions gave rise to considerable difficulties.⁹ Rumania desired, in the first place, that only the riverain States on the Danube, and Turkey, should be represented on the Danube Mouths Commission; while Russia, *i.e.*, the Ukraine, should be excluded from it. Austria-Hungary was not disinclined to accede to this view, the more so because, if all the States situated on the European coasts of the Black Sea were admitted to the Danube Commission, it was to be feared that a considerable number of little Black Sea republics might push themselves forward. Ephemeral republics of this kind were already springing up like mushrooms at the time of the Bukharest negotiations. The Central Powers were not committed to the admission of the Ukraine to the Commission, since during the negotiations at Brest-Litovsk, M. Ostapenko, the Ukrainian plenipotentiary, had expressly rejected this idea. After considerable hesitation, however, the German delegates decided in favor of the inclusion of the Ukraine, and Rumania's suggestion was therefore rejected.

The second difference arose with regard to Rumania's desire to limit the authority of the new Danube Mouths Commission to a period of twelve years, whereas the Central Powers looked upon it

⁹ Telegram of 1st April 1918 from Dr. Gratz, at Bukharest, to Count Czernin at Vienna.

as a permanent institution in the sense of the Treaty of Paris. This suggestion was also rejected, on the ground that the acceptance of Rumania's point of view would have upset the legal status established by the Treaty of Paris and its later extensions, in favor of Rumania, and would have had as its result that after 1930 Rumania would have been absolute mistress of the mouths of the Danube.

Abolition of Rumanian Tolls on Danube Traffic. Freedom from Tolls on the Danube.

Rumania at the same time assumed the obligation of granting to the shipping of the other contracting parties free access to the Rumanian portion of the Danube and the ports appertaining to it. She also bound herself to levy on the ships and lumber rafts of the contracting parties no tolls based solely on the fact of using the river (Peace Treaty, Article XXIV. B).

An end had also to be made of a regulation, very hampering to navigation, by which Rumania levied a duty of $\frac{1}{2}$ per cent on the value of wares brought into or out of the ports of the kingdom. The Rumanian Government bound itself to remove this duty within five years after the ratification of the Peace Treaty at the latest, after the new Danube Convention had come into force, and so soon as she had imposed dues, in accordance with its provisions, for the use of those public services concerned with the development of navigation and transport of goods (Article XXIV. C).

Lastly, it was laid down that goods and rafts arriving at the Danube for transportation should not be subject to any transport dues for such conveyance in transit through Rumania (Article XXIV. C).

Navigation Convention.

The plan of transferring to a joint German-Austro-Hungarian port development company all the harbor works carried out on Rumanian territory during its occupation by the Central Powers, and to give Rumania a share in the same, was dropped. It was agreed that all constructions for the improvement of the Rumanian Danube ports during the War, including railways, should be handed over to Rumania, in return for a sum covering their cost (Article II. G).

On the other hand, a special Navigation Convention was concluded between Germany, Austria-Hungary, and Rumania, under

which agreements were arrived at as to rights of navigation, the handling of ships and their cargoes, and the use of buildings and constructions intended for shipping purposes.

This Convention guaranteed to Austrian, Hungarian, and also German ships, shipping companies and their agents in Rumania, equal treatment with Rumanian ships, shipping companies and their agents, or with those of a most favored nation. All privileges possessed in Rumania by the national flag or by that of the most favored nations, with regard to navigation or the use of buildings and constructions destined for public shipping services, would thus also be conferred upon Austrian and Hungarian enterprises. Similar privileges involving equal treatment with Rumanian merchandise or that of a most favored nation, were in future to be guaranteed to all cargoes borne by Austrian or Hungarian ships, and likewise to all Austrian or Hungarian cargoes borne by foreign ships, in respect of all tolls and public dues, and likewise in respect of their despatch and transfer at Rumanian ports, landing-stages, and places of transshipment.

Rumania guaranteed to the Austrian and Hungarian internal navigation companies, which kept up a regular passenger and goods service, the right of acquiring by lease for a period of thirty years suitable portions of the shore for their companies, there to set up storehouses, office premises, landing-stages and warehouses, facilities for lading, unlading and transshipping, repair shops, coal stores, and likewise the railway lines required for the service of these undertakings. This removed one of the chief grievances of the Austrian and Hungarian shipping companies, which had always met with obstruction in the construction of landing-places in Rumania. Their original claim that these companies should be allowed to acquire the ownership of the required areas could not be realized, in view of the Rumanian attitude forbidding the acquisition of real estate by foreigners. Permanent landing-places and storehouses were also guaranteed to the Austrian and Hungarian shipping companies for their regular shipping-lines in the seaports of Rumania.

The Iron Gates Tolls.

In the course of the negotiations the Rumanian delegates asked that the Hungarian tolls at the Iron Gates should no longer be

levied on the various goods carried as cargoes, but on the tonnage of the vessels, as was done at the mouths of the Danube. On this point Hungary added an explanatory note to the Protocol appended to the Peace Treaty, pointing out that these tolls were imposed in order to raise the funds necessary for carrying out the improvement works at the Iron Gates, of which the obligation was imposed upon her by international treaties, and that these treaties did not limit the ways in which these tolls were to be assessed. The Hungarian Government, however, intended to submit the schedule of these tolls for revision as soon as normal conditions had been restored, while at the same time reserving for its own decision the scale of such revision and the question of any change in the existing system.

Question of the Railways.

In the matter of the railways the agreements arrived at with Rumania were but few.¹⁰ Rumania would do no more than consent to adjust her tariff on goods exported from, imported into, or in course of transit to or from the Monarchy to the Rumanian local tariff rates of 1st July 1916 which, so long as the Commercial Treaty remained in force, were to be taken as the maximum (*i.e.*, till 1930). Any indirect increase of this tariff by means of taxes was also forbidden. A few further duties were also fixed in the case of crude oil and its by-products transported through Rumania. These provisions, in view of the tendency for tariffs to be raised, had a certain importance.

It was also found possible to arrive at certain agreements with regard to reciprocal parity of treatment in the case of passenger and goods traffic. In view, however, of existing Rumanian laws, which made it impossible at once to remove certain tariff privileges granted to the products of certain Rumanian industrial undertakings, a transition period of five years was agreed upon, during which Austrian and Hungarian goods were not to enjoy these special privileges. Each of the two parties was to grant the other most-favored-nation treatment for goods imported or in transit. For passenger and goods traffic direct tariffs were contemplated. It was also agreed that Rumania was to be received back into the German railway combine,

¹⁰ Economic Additional Treaty, Par. 5. Railway Convention between Austria and Rumania. Railway Convention between Hungary and Rumania.

and a passenger and goods time-table more advantageous to both parties was promised. The provisions dealing with compensation for rolling-stock located in Rumania at the outbreak of war were more advantageous to Austria-Hungary.

A more important matter was the desire of the Austro-Hungarian railway authorities to persuade Rumania to adhere to the Railway Convention of 9th May 1883—the so-called *convention à quatre*. This Convention, which had been concluded between Austria-Hungary, Bulgaria, Serbia, and Turkey, contained the principles of parity, most-favored-nation treatment, and uniform rates for all direct imposts. Its chief value lay in the fact that it could not be denounced. It did, indeed, include certain maximum tariff rates—the so-called “convention tariff”—but the tariffs actually in force up to the outbreak of war had really been lower than these “convention rates,” which decreased their importance in practice. Lower tariffs—the so-called Orient rates (*Orienttaxen*)—were established, though not in a definitive form, between the four States taking part in the convention by later agreements, the last of which was in 1909. Efforts had been made on the part of Austria-Hungary to induce Rumania to adhere to the *convention à quatre*, and also to introduce the *Orienttaxen* of 1909, but without success. Rumania would consent only to conclude in turn a Convention with Austria-Hungary and the other States party to the *convention à quatre*, in the event of a fresh connection between the Rumanian and Bulgarian railway systems being established, which would only be possible if the Danube were bridged above Cernavoda—a condition then lacking. Thus the entry of Rumania into this system of Conventions, reinforced by tariffs and in other ways, was indefinitely postponed even after the conclusion of peace.

Railway Connections.

The endeavors of the Austro-Hungarian delegates to attain the construction, on Rumanian territory, of certain new lines of railway which were of importance for international communications, remained equally unsuccessful.

One of the connections to which Austria-Hungary attached importance was that by way of the Roten Turm Pass to the south of Nagyszeben, connecting the Hungarian railway system with that of

Rumania, which would have demanded the construction of a railway line in the mountainous Carpathian region between Jiblea and Curtea d'Arges. This connection would have materially shortened the distance between Budapest and Bukharest, which had communicated hitherto partly *via* Temesvar-Vereiorova, partly *via* Brasso-Predeal. It would also have made it possible to establish a second and shorter connection between Budapest and Sofia, in case a bridge were thrown across the Danube between Giurgiu (Giurgevo) and Rustehuk. The Bulgarian delegates in particular put forward an emphatic demand that Rumania should construct this bridge at her own expense, and this question for a considerable time played a great part in the negotiations. Rumania, however, declared that want of money prevented her from constructing either the branch lines or the bridge over the Danube, and these demands had therefore also to be dropped. It was the same with the Austrian demand for the construction of a railway-line which, starting from Jassy, would have established a direct, and much shorter, connection between Vienna and Odessa.

Inadequacy of the Economic Conventions.

During these negotiations, which had little resemblance to a parley between victors and vanquished, the Rumanian delegates had every opportunity not only for opposing, but for refusing, demands which seemed unacceptable to them; and as a rule they made their opposition effective. The result was that numerous economic provisions of the Peace Treaty—*e.g.*, those concerned with the railways, with shipping, and with the ownership of land by foreigners—were the outcome of compromises and, from the Austro-Hungarian point of view, were wholly inadequate.

The cause of this was the firm resolve of those who conducted the negotiations on behalf of Austria-Hungary that the peace with Rumania should be an amicable one. At the outset it was occasionally necessary to use threatening language, especially to secure the cession of the Dobrudja, without which Bulgaria would have dropped out of the War. But the main object having been achieved, there was no further desire to dictate terms of peace. The idea was, indeed, at one moment mooted of lumping all the demands of Austria-Hungary together and presenting them in the form of an ultimatum; but this was dropped. The aim of the Austro-Hungarian negotiators was to

secure a peace by agreement, even at the risk of losing the opportunity, which might never recur, of imposing on Rumania principles in the matter of railways, shipping, and foreigners' property which in Austria-Hungary were taken for granted and would have been reciprocally applied in her own territory. They considered it all-important not to impose such terms on Rumania as would make it difficult for the Monarchy to resume friendly relations with a country with which it had always had so many interests in common. They had, therefore, to be contented with what could be obtained from the Rumanian delegates by tireless negotiations, without the threat of *force majeure*. The pursuit of this policy was certainly made considerably easier by the fact that Rumania had at that time a Prime Minister of whose loyal attitude the Central Powers were assured, and who by yielding in the right place was able to avert an ultimatum when it really threatened.

Recognition of the New Lei Notes.

Turning to the financial provisions of the peace agreements, reference must first be made to Rumania's obligation to recognize, call in, and redeem the *lei* notes issued by the *Banca Generala Romana* at the instance of the German military authorities—the so-called “new” or “German” *lei* (Politico-juridical Additional Treaty, Article III).

After the occupation of Rumania, *lei* notes were issued by the *Banca Generala Romana*, amounting at the time of the peace negotiations to the sum of more than a milliard, in order to provide part of the currency required for the expenses of the Army of Occupation and the civil administration, and to pay for the foodstuffs and forage, the mineral oils and raw materials required for the army and the population of the occupied part of the country. The issue was covered by a sum in marks and kronen deposited by the Central Powers in Berlin. The Peace Treaty now laid on Rumania the obligation of redeeming these *lei* notes out of her own resources in exchange for notes of the Rumanian National Bank or some other legal currency, thus setting free the sum in marks and kronen deposited at Berlin to cover the *Banca Generala's* notes. By this means Rumania would pay compensation for the costs of the occupation, in

accordance with the principle laid down by the Hague War Regulations.¹¹

The Rumanian National Bank, however, had also at its disposal in Berlin considerable credits in marks and deposits of gold, dating from the purchases of grain which Germany and Austria-Hungary had made in Rumania in 1915 and 1916, before her entry into the War. After the Rumanian declaration of war a controller was appointed for these credits, who diverted a part of the credit in marks to cover the new issue of *lei*. These measures were now recognized by Rumania (Article XVIII of the Politico-juridical Additional Treaty). The remaining credits or sums on deposit were retained for at least five years as a surety for the service of the Rumanian State debt in Germany and Austria-Hungary.

Claims for Compensation.

By Article XXIII of the Peace Treaty, the obligation was imposed on Rumania of indemnifying the Central Powers for the cost of the industrial institutions established, and the public works carried out, by their armies, and the economic staff attached to them, during the period of the occupation.

Reciprocal indemnification for the cost of maintenance of prisoners of war was provided for by Article VIII of the Politico-juridical Additional Treaty. This treaty also provided for the mutual restoration of all confiscated river craft and merchant vessels, or compensation in default thereof, as well as of all railway material situated on foreign territory at the outbreak of war. Under Article III, moreover, Rumania had to indemnify Austrian and Hungarian subjects for all damage done to them on Rumanian territory owing to military measures—whether by the act of friend or foe—with the exception of damage suffered in action by persons attached to the armies. This claim for compensation also held good for the damage suffered by Austrians or Hungarians as partners or shareholders

¹¹ According to the Regulations for the conduct of war on land adopted by the Hague Conference in 1899, requisitions and contributions for an invading army were to be levied only by the commander in the locality occupied, and were either to be paid for in money or their receipt acknowledged and payment made as soon as possible (Article 52). These receipts usually take the form of quittances or bills drawn by the belligerent invader or the invaded State. W. A. P.

in Rumanian enterprises; for there had arisen in Rumania a number of enterprises, especially timber companies, which had been founded for the greater part with Austrian or Hungarian capital, and could therefore be regarded as Rumanian only in form. Finally, Rumania was bound to pay compensation for damage to property suffered by neutrals on Rumanian territory, in so far as this was required by international law.

The reciprocal provision that each State must compensate the civil subjects of the other for any damage inflicted on them on its territory in violation of international law, involved the extension of protection to shareholders of companies existing in the territory of the State from which compensation was due. The amount of claims for such compensation in individual cases was to be settled by an arbitration court under a neutral chairman.

On account of all these liabilities Rumania bound herself to pay Austria-Hungary a sum of 35 million *kronen* in gold within two years of the ratification of the treaty. But Rumania was informed that Austria-Hungary would not insist on this payment if, in the course of the next few years, the arrangements for mutual credits between Rumania and the Monarchy could be settled in a way satisfactory to both countries. Such arrangements were actually made on 8th July 1918, as the outcome of negotiation in Berlin, and Austria-Hungary consequently renounced her claim to this gold payment.¹²

The Berlin Convention of 8th July provided, firstly, for the establishment of that system of reciprocal credits which has already been described in connection with the discussion on the Economic Agreement,¹³ and secondly, for ensuring the fulfillment of Rumania's obligations as above described. Under the Convention, the Rumanian Government undertook to place at the disposal of such official authorities as might be indicated by Austria-Hungary credits at the National Bank, large enough to be drawn on at any time to cover the cost of the Army of Occupation and of the compensation payments. It was also provided that Rumania might pay for war or civil damage by Treasury notes, valid only for a year, and bearing

¹² Berlin Protocol of 8th July 1918, respecting the signature of the Convention between Austria-Hungary and Rumania providing for the reciprocal establishment of credits.

¹³ See p. 177.

interest at the rate of 5 per cent; these notes, moreover, were to be convertible at any time, and at their face value, on presentation at the National Bank. Finally, it was laid down that Rumania might not suppress, reduce, or encumber her State monopolies, without the consent of Austria-Hungary, until her obligations had been discharged, since, in the event of their not being discharged within the time stipulated, the income from these monopolies would have to be pledged.

Turkey's Share in the Economic Gains.

During the first stage of the Bukharest negotiations the Turkish delegates had expressed a desire to share in the advantages gained by the Central Powers in Rumania, and this led to tedious negotiations, which were finally concluded at the time of the signature of the Rumanian peace.

By the terms of the agreements reached Turkey was to receive a quarter of the actual spoils of war in Rumania, and likewise a quarter of the gains which would ultimately accrue from the activities of the Economic Staff. For the rest, Turkey pointed out that a considerable profit was made on the goods imported from Rumania during the occupation, since the price they fetched, *e.g.*, in Germany or Austria-Hungary, was far higher than their cost in Rumania itself, when all the means of obtaining them had been taken into consideration. Of this surplus profit, the amount of which was to be evaluated by a later agreement, 25 per cent was likewise assigned to Turkey. Lastly, Turkey was given the prospect of a proportional share in the profit from the issue of *lei* by the *Banca Generala*. The sums which Turkey was to receive under this category were not definitely fixed, but a detailed calculation was already drawn up at Bukharest, according to which Turkey was to receive 10 million *lei* in respect of spoils of war, 32 million *lei* in respect of surplus profits, and 5 million *lei* in respect of the profits of the Economic Staff. The expenses of the Turkish Army of Occupation in Rumania, for which they were also to be indemnified, were calculated by Turkey herself at 15 million *lei*. Thus Turkey's total claim under the above heads amounted to a sum of 62 million *lei*. This sum was to be increased by Turkey's share in the profits accruing from the

redemption of *lei* to something over 100 million *lei*.¹⁴ On the part of Turkey the claim was originally calculated at 250 millions owing to a higher estimate of the profit on *lei*.¹⁵ This sum was not to be paid in full, but only after deducting the claims of the Central Powers on Turkey.

A separate arrangement between Germany and Austria-Hungary¹⁶ recognized that the payment to be made to Turkey under the head of surplus profits was to be made by both Powers, but it was not possible to come to an agreement as to the quota due from each. Austria-Hungary put forward the view that the contributions of the two Empires to Turkey's share should be in proportion to their own respective shares in the surplus profits, while Germany wished to meet half the sum herself and shift the other half on to Austria-Hungary. The adjustment of this difference of opinion was postponed till the amount of the surplus profit had been settled.

Bulgaria had not put forward a similar claim, but the intention was to allot her a lump sum under the same head during the settlement after the War. These sums were also to be paid by Austria-Hungary and Germany jointly.

An Economic Alliance with Rumania.

Among the remaining questions under discussion was that of the ultimate entry of Rumania into the projected Central European Economic Alliance, the realization of which seemed at that time to be in sight.

The essential condition of such an alliance was the recognition of the principle that other States would not, on the ground of most-favored-nation treatment, claim to share the privileges granted by Austria-Hungary to Germany or to any other country associated with her in the Customs Alliance. This was admitted by Rumania, and Austria-Hungary reciprocated by admitting the right of Rumania also to form Customs Alliances and by undertaking, in this event, to make no claim to share in the privileges conceded by Ru-

¹⁴ Telegram of Dr. Gratz, to the Minister for Foreign Affairs, 2nd April 1918.

¹⁵ Telegram of Dr. Gratz, to the Minister for Foreign Affairs, 1st April 1918.

¹⁶ Protocol of 6th May 1918.

mania to any country bound to her by such an alliance (Article IV of the Economic Additional Treaty).

No difficulty was experienced in arriving at this agreement. It had, however, only the negative object of clearing out of the way a possible obstacle to the creation of an Austro-Hungarian-German economic area. The plans of Austria-Hungary went further, and aimed at persuading Rumania herself to join the Central European Customs Alliance. The first plan, elaborated by the Austrian Ministry of Commerce and strongly supported by the Ministry for Foreign Affairs on political grounds, aimed at embodying in the Peace Treaty some such agreements as the following:

If Germany and Austria-Hungary conclude a Customs Alliance, Germany, Austria-Hungary, and Rumania bind themselves to form a Customs Alliance for the same period on the following basis:

(1) Exchange of commodities between them shall take place, partly free of duty and partly at Customs rates amounting to no more than half those in force for other States, not forming part of the Customs Alliance.

(2) Rumania adopts the schedule of tariffs agreed upon between Germany and Austria-Hungary.

(3) The negotiations for the Customs Alliance are to be concluded at latest six months after the signature of the Customs Alliance between Germany and Austria-Hungary. In cases in which a detailed agreement cannot be reached, Customs rates of half the amount are to be granted reciprocally.

The ideas underlying this policy were developed as follows in a memorandum of Dr. A. Schüller, *Sektionschef* in the Austrian Ministry of Commerce:

"A Customs Alliance with Germany is only possible for Austrian and Hungarian industry, if it is supplemented by corresponding agreements with the Balkan States. If we throw open our gates to German industry, a way into the Balkans, and especially into Rumania, must be thrown open to our industry. But this is also possible; for if a way into Germany is opened for our agricultural produce, we can also open our gates to the Balkans. In so doing, we should impose no sacrifice upon our agriculture, and that for the following reasons: Rumania, Bulgaria, and Serbia, even when united, cannot

meet the German demand for the importation of agricultural produce. The average figures for 1901-1910 were as follows:

	<i>Exports from Rumania, Bulgaria and Serbia</i>	<i>Additional Imports into Germany</i>
	(in millions of quintals)	
Wheat	14	21
Rye	1.5	2.5
Barley	4	18
Maize	9	10
	<hr/> 28.5	<hr/> 51.5

"Hence the whole area would still be grain-importing, and consequently import duties would have produced their full effect upon the price of grain in the home market. It would not affect these prices whether we were to maintain against Rumania the tariff hitherto prevailing, or half rates, or no duties at all. On the other hand, it would be of the greatest importance for Rumania, since the less duty she has to pay, the more she receives for her grain. We would only have to consider the fall in our customs receipts, which in our case would be insignificant, but for Germany immeasurably greater.

"Even if the whole grain-crop of the Balkans were to go to Germany, she would still have to meet a demand for the importation of more than 20 million quintals of grain. And this demand, like our own, is rapidly increasing.

"Thus it happens that we can grant Rumania free importation of her grain without any material detriment to our own agriculture, if Germany will grant the same to us. Provisionally, however, the only obligation to be undertaken in this event is that of granting Rumania half rates.

"As regards the importation of live-stock, this depends above all on the settlement of the veterinary question. It can only be stated provisionally that the import of live-stock would be conceded under due safeguards, as agreed upon in the *Ausgleich*.

"The above proposals are in harmony with the agreements for a Composition (*Ausgleich*) which have been settled between the Austrian and Hungarian Governments, though not as yet ratified by Parliament. On p. 89 of this document is to be found the provision relative to minimum duties upon grain, and later, on pp. 90 and 91,

a general provision for modifications and supplementary provisions arising out of the revision of the economic articles, in particular those concerning the German Empire.

"The revision of our relations with the German Empire would be greatly hampered if we did not succeed in ensuring the simultaneous adhesion of Rumania. It would, on the other hand, be greatly facilitated and rendered certain by this adhesion. A close economic alliance with Rumania would, however, in itself be of the greatest economic and political importance. Finally, we should not fail to consider that a Customs Alliance with Rumania is the condition of the desired currency values agreement with these States, which would be very important for the restoration of our exchange, since we have to meet the payments to Rumania for our heavy imports of grain during the War, and even after the War are likely to be in the position of having to pay in our own currency for foodstuffs and raw materials."

In spite of this clear exposition of principles, the Hungarian Government was reluctant to accede to this plan. It had to reckon with the pressure of agrarian circles, which had always regarded all imports of Rumanian agricultural produce as a danger to their own interests. Consequently the Prime Minister, Dr. Wekerle, who, like his Minister of Commerce, Baron Szterenyi, advocated the policy of forming as wide economic units as possible, stated that he could not come to an immediate decision, but must first discuss the matter with the representatives of the agrarian interest, and then consult the Cabinet. On 8th March the conclusions of the Hungarian Government were communicated to the peace delegates at Bukharest. They were in the negative.

At the beginning of April, however, Count Czernin, who was at that time in Vienna, returned to this idea and pressed it with characteristic energy. He made known in influential circles his intention of negotiating with the Rumanian Government over the insertion of a new clause in the Peace Treaty, by which Rumania should bind herself, in the event of a preferential treaty being concluded between Germany and Austria-Hungary, also to conclude one between Rumania on the one hand and Germany and Austria-Hungary on the other. Herr von Körner, who represented Germany's economic interests at the peace conference, was also sounded on this point. He agreed that such a clause granting preferential Customs rates to

Germany as well as Austria-Hungary, as opposed to all other foreign countries, should be warmly welcomed from the point of view of German economic interests. But Count Czernin resigned before he could bring the negotiations on this point to any conclusion.

His successor, Count Burián, however, took up the idea with equal zeal and resumed the conversations with Rumania. Up till that time the subject had only been broached once with Marghiloman, before he had become Prime Minister, in a private conversation which had left the impression that he was prepared to consider the idea more closely, subject to the safeguards which were necessary from the point of view of the Customs revenue. The Austrian proposal was now discussed from every point of view with Marghiloman as Prime Minister, and he announced his readiness to conclude an agreement for a Customs Alliance subject to certain qualifications.

On 1st May Burián addressed himself on the subject directly to the Hungarian Prime Minister. "In the course of our preliminary examination of questions in preparation for the Rumanian peace negotiations," as he set forth in a lengthy telegram,¹⁷ "the desire has again arisen to impose on Rumania the obligation of concluding a Customs Alliance with the Central Powers, in the event of such an alliance being concluded between Germany and Austria-Hungary. Important reasons of a political and economic nature move us in particular at the present time to examine this idea more closely and to induce Rumania to enter into closer economic relations with us, approximating more closely to the principles on which we wish to regulate our economic relations with Germany. Even after the War, in spite of the considerable sacrifice exacted from her in concluding peace, Rumania will remain one of our most important neighbor States, especially when we consider that in consequence of the annexation of Bessarabia, which is rendered probable by the process of disintegration which has begun in Russia, she will receive considerable new accessions to her strength. It is therefore very much to the interest of Austria-Hungary to seek for guarantees which shall give Rumanian policy a tendency towards lasting friendship with us. A most efficacious guarantee of this nature would consist in that thousandfold web which would be woven between Austria-Hungary and Rumania if we were successful in bringing about closer

¹⁷ Telegram of Baron Burián to Dr. Wekerle, 1st May 1918.

economic relations between them. It is superfluous for me to point out to your Excellency that such close economic relations would also harmonize with our own economic interests, if regarded from a true point of view, and would be the correlative of our projected economic *rapprochement* with Germany. It goes without saying that Rumania's obligation to enter into a Customs Alliance with us must be only a one-sided one, since for our part we should not be in the position to assume an equally binding obligation. The formula to be adopted in the treaty must therefore be of such a kind that we, for our part, keep an entirely free hand to conclude the Customs Alliance with Rumania only in case it is made possible for us to do so by an economic agreement with Germany. Hence the formula to be adopted in the treaty must express only Rumania's willingness for her part to conclude a Customs Alliance with us, while on our side entry into such close economic relations must be dependent not on the mere fact of our Customs Alliance with Germany but also upon its contents." Burián made various proposals for the solution of this question and then continued: "I should also like to mention that at a Customs and Commercial Conference at the end of December the representatives of the two Ministries of Agriculture both agreed to a one-sided engagement of this sort which should be conditional on our part, and that a short time ago Count Stefan Tisza, in the presence of *Sektionschef* Gratz, raised no objection to the adoption of such a provision in the Peace Treaty."

It was not till this point that the Hungarian Government gave its consent to the projected agreement with Rumania. The agreement was given the form of an exchange of notes, which took place simultaneously with the conclusion of the Peace Treaty. The Rumanian Government's note ran as follows:

"With regard to our conversation on the question of a Customs Alliance between the Central Powers and Rumania, I have the honor to inform Your Excellency that Rumania is prepared, in the event of a future Customs Alliance between Germany and Austria-Hungary, to enter this Alliance under conditions to be settled later, and, on the invitation of the Central Powers, to enter upon negotiations on this question without delay. Requesting Your Excellency to treat this communication as strictly confidential, I remain, etc., etc., Marghiloman, Prime Minister."

Basic Tendencies of the Peace of Bukharest.

The Peace of Bukharest reveals the tendencies of Austro-Hungarian policy during the period after the War more clearly than the Peace of Brest-Litovsk, since Austria-Hungary was more directly interested in Rumania than in Russia.

The peace was regarded even on its political side as a peace by agreement. From this point of view it would perhaps have been more logical if certain claims, for instance, the frontier rectifications, had not been put forward at all, since they could only have been attained by an ultimatum. But it must be admitted that those directing Austro-Hungarian policy endeavored to make these frontier rectifications less painful, by confining them to practically uninhabited areas, so that they were only economically valuable, and particularly on account of their wealth in timber.

In the economic sphere it was Austria-Hungary's endeavor so to manage things that no terms were imposed upon Rumania that she would feel as a constant thorn in the flesh. In all important respects Rumania was granted full reciprocity. Austria-Hungary's efforts were directed towards winning Rumania over to such measures as had already existed for some time in all modern states, *e.g.*, with regard to the acquisition of land by foreigners, the admission of Jews to citizenship, free navigation on the Danube, etc. Even other demands, *e.g.*, that for the construction of international railway connections, for international regulation of the conditions of navigation on the Danube and Dniester, were only partly put forward in the interest of Austria-Hungary, and were rather directed towards the aim of improving the conditions of international communications in general. On the whole, the efforts of Austro-Hungarian policy were directed as far as possible towards thoroughly developing and binding close the connection between the Monarchy and Rumania. One of those concerned in the Austro-Hungarian negotiations expressed this tendency at the time in the following words: "Rumania cannot be so far weakened that she ceases to be a desirable friend. On the other hand, we cannot be so indulgent to her as to render all feelings of revenge against her victorious enemy impossible. The sole means of making a friend of her lies in binding her economic interests closely to those of Austria-Hungary. That is the object which we must strive to attain." And this line was consistently pursued.

This tendency was most clearly manifested in the efforts which were made to draw Rumania into an economic alliance with the Central Powers. Even before this time Rumania's trade, for obvious geographical reasons, had been chiefly directed towards Central Europe. A Customs Alliance between Rumania and the Central Powers offered Rumania in particular material advantages and had always had its advocates there. The obstacles in the way of such an alliance, which had actually been contemplated in the 'eighties, lay less in Rumania than in Austria-Hungary. For the sake of the great plan of creating the largest possible economic area, even the objections raised to this alliance from the point of view of the agrarian interest were set aside. Men's thoughts had turned in Austria-Hungary towards a future which should minimize, so far as possible, the points of friction between States, and had laid a stronger emphasis upon whatever might bring them closer together. By very reason of the vast losses which the War had entailed for every State involved in it, a policy of reconciling opposing principles, of combination and compromise between different interests was considered to be essential after the War. It is possible that from this point of view the Peace of Bukharest reveals some defects. But that this was its fundamental tendency, in spite of all its imperfections arising out of the circumstances, is clearly to be recognized.

PART IV

NEGOTIATIONS ON THE POLISH QUESTION

CHAPTER I

ORIGINS OF THE QUESTION

THE final partition of the former Kingdom of Poland between the neighboring Powers, Russia, Germany, and Austria-Hungary, had taken place as long ago as 1795. But the longing of the Poles to regain their independence had never died out, and during the World War which brought the political geography of Europe into a state of flux, the efforts of the Poles to reunite the sundered fragments of their country were bound to revive with peculiar intensity.

At the beginning of the War the stars did not seem favorable to the realization of these efforts. Of the three Powers which had annexed portions of the old Poland, one, Russia, was in the camp of the Entente, the other two, Germany and Austria-Hungary, in that of the Central Powers. It was therefore to be assumed that a victory of the Entente would make no change in the destiny of the Polish territory belonging to Russia, while a victory of the Central Powers would make no change in that of Galicia and Posen. The reunion of these fragments in one independent country seemed to have receded far into the distance. The most probable outcome seemed to be the reunion of all the Poles—though not in the form of an autonomous State—within the bounds of Russia, in case she ended the War victoriously. It was the collapse of Russia which first rendered possible the reunion of all the Poles in an autonomous State.

Soon after the beginning of the War, parts of Russian Poland fell under the domination of the military forces of the Central Powers. The future destiny of this territory, however, gave but little anxiety to diplomatists. For the time being they had only to do with a temporary war régime which called for no political decisions. The Germans showed themselves fairly disinterested in Poland. They said that Germany had already more than enough Polish subjects within her frontiers and did not wish to impair the national character of her Empire through the annexation of fresh Polish territory. In Austria-Hungary too the Polish question was hardly discussed at all.

This situation was changed all of a sudden when in August 1915 the troops of the Central Powers occupied Warsaw, the capital of Russian Poland. From that time onwards there seemed to be a possi-

bility of detaching Poland from Russia in the event of a victory of the Central Powers, and the question had to be faced of what was to be the ultimate destiny of this territory. A partition of Poland between Austria-Hungary and Germany was never contemplated; for this would merely have given to the partitioning Powers new provinces full of actively discontented inhabitants, a source of endless distraction to them both. The incorporation of the whole of Russian Poland in Germany was not contemplated either; for Germany would not hear of it. The creation of a fully autonomous Poland, excluding the portions belonging to Germany and Austria-Hungary, would have had as its consequence that the new State would have exercised a strong force of attraction over the Polish population in Posen and Galicia, and turned the irredentist tendencies in these regions into a serious danger. Hence only two possibilities remained; the creation of a Polish State under the hegemony of Germany, or the union of Poland with Austria-Hungary, which was already composed of a medley of nations, in which case Galicia would naturally have been united with the new State. The former of these solutions was known as the German-Polish, since it was chiefly advocated in German quarters; it was also called the "Buffer-State solution," since in the event of its realization Poland would have become a buffer State between Germany and Russia; lastly, it was also called the "Little Poland" solution, since it contemplated the creation of a Polish Kingdom without Galicia. The other solution was always designated as the Austro-Polish solution. And finally, after these two solutions had been negotiated upon one after the other, the possibility was also discussed of Poland herself deciding, by the election of one of the candidates for the Polish crown, whether she would enter into a personal union with Austria-Hungary or remain an independent kingdom; *i.e.*, whether she would prefer the Austro-Polish or the German-Polish solution. This was known to the Poles as the "Candidate solution."

Three different phases may be clearly distinguished in the development of the Polish question. With the conquest of Warsaw, in the summer of 1915, the Buffer-State solution first came into prominence. In September 1917 the Austro-Polish solution came into the foreground. Lastly, in the summer of 1918, after the terms of the Peace Treaty with the Ukraine had endangered the Austro-Polish

solution, the Candidate solution began to be debated. The prospect of a union of Poland with Galicia and the more tolerant character of the Austro-Hungarian Monarchy moved a great number of Polish patriots—those, at least, who were not staying abroad in enemy countries—to declare for the Austro-Polish solution. Even Germany was at first in favor of this.

CHAPTER II

THE BUFFER-STATE SOLUTION

AFTER the occupation of Warsaw, however, Germany showed a growing interest in Poland. The Polish capital was taken by German troops; and the Germans, as far as possible, kept Austro-Hungarian troops at a distance from it. When Austria-Hungary prepared to establish a diplomatic mission in Warsaw, for the protection of her interests there, this attempt was met with distrust in German quarters, which tried for a long time, though vainly, to persuade the Monarchy to be content with setting up a Consulate General. Difficulties were also incessantly raised by the German military authorities in the matter of granting permission to travel to Austro-Hungarian officials, politicians, and merchants. All this was taken to mean that Germany was anxious as far as possible to exclude the influence of Austria-Hungary from this region.

It was thought sufficient, for the time being, to settle the relations between Germany and the Monarchy in the Polish occupied territory provisionally, *i.e.*, for the duration of the occupation. On 13th and 14th September, conferences took place at Teschen between German and Austro-Hungarian delegations in order to arrange this matter. In addition to this conference, Prince Hohenlohe, the Austro-Hungarian Ambassador, also carried on repeated negotiations at Berlin, which led, on 14th December 1915, to an agreement as to the representation of Austria-Hungary's interests in Warsaw, and over the delimitation of the Austro-Hungarian and German administrative areas in Russian Poland. It was decided that, in order to establish a *liaison*, an Austro-Hungarian officer of high grade should be attached to the German Governor-General in Warsaw, and a German representative to the Austro-Hungarian Governor-General at Lublin; and further that a delegate of the Austro-Hungarian Ministry for Foreign Affairs should be charged with the representation of the interests of Austrian and Hungarian subjects in Warsaw. Regulations were also made for the entry of Austrian and Hungarian subjects into the occupied territory; it was made obligatory for the railway authorities to accept Austrian money (at the rate of exchange of the mark from day to day); and provisions

for postal and railway communications were agreed upon. The southern boundary of the Government of Siedlee was designated as the frontier between the German and Austro-Hungarian occupied territory in the newly acquired parts of Poland to the east of the Vistula.

In the course of these negotiations the strong desire of the German military authorities to keep a permanent foothold in Poland was clearly displayed. The German diplomatists, on the other hand, remained true to the principle of disinterestedness for a comparatively long time. The German Imperial Chancellor, Herr von Bethmann-Hollweg, had, indeed, on 11th November 1915, informed Baron Burián, the Austro-Hungarian Minister of Foreign Affairs, that the pressure of public opinion was making it more and more difficult for the German Government to adopt the view that Poland, which had been conquered by German arms, should be handed over to the Monarchy, while Germany could expect but small, if any, territorial gains from the War. At first, however, he drew no conclusions from this condition of things, and, up to March 1916, his own pronouncements and those of the German Government were all in favor of the Austro-Polish solution, on the ground that Germany desired no more Polish subjects. It was merely suggested that, in return for handing the country over, German trade interests there should be protected.

In March 1916, however, the policy of Germany in the Polish Question was completely changed, and the union of Poland with Austria-Hungary was struck out of her program. On 25th February Count Burián, the Austro-Hungarian Minister for Foreign Affairs, had sent to the German Chancellor a note in which he expressed the opinion that the time had come to settle the question of the incorporation of Poland in the Monarchy, in order more effectually to combat the rapidly growing movement in favor of Polish independence, which was equally objectionable to Austria-Hungary and to Germany. In a memorandum of 10th April, which was communicated to Herr von Bethmann-Hollweg, he elaborated these views in greater detail.¹ In the course of conversations which he had on the 14th and 15th in Berlin with the German Chancellor, the latter announced to him that he had changed his views with regard to the future of

¹ Communication of Baron Burián to Prince Hohenlohe, Ambassador in Berlin. No. 1650. 10th April 1916.

Poland. In coming to this decision, Herr von Bethmann-Hollweg explained that he had been partly influenced by public opinion in Germany, which objected to the transference of Poland to the Monarchy on the ground that Austria-Hungary had a far better chance than Germany of obtaining territorial acquisitions elsewhere. Considerations connected with the internal policy of the Monarchy had, he said, also had weight with him, especially the fear that the incorporation of Poland would increase the danger of the German elements in Austria-Hungary finding themselves in a hopeless minority. He therefore gave it as his opinion that the best solution of the question would be to make Poland an autonomous buffer State under the military and economic hegemony of Germany.

Baron Burián at once declared against this project. He expressed the fear that, were it carried out, Poland would be dissatisfied in every direction and would become a center of Russian agitation, which would create an intolerable situation in Galicia. He developed his objections in greater detail on 12th May,² but without effect, for on 3rd June the German Ambassador informed him that the attitude of his Government in this matter was unchanged. At the same time, however, it was hinted that Germany might be willing to support the candidature of an Austrian Archduke (Charles Stephen)³ for the crown of Poland, and that a few districts in southern Poland, especially the Dombrowa coal-field, could be united with Austria. Burián, however, declared the project to be impracticable.

In July, however, the Austro-Hungarian Government had accepted the German point of view. The change was partly due to the defeats suffered by Austria-Hungary in East Galicia and at Luck, which weakened her position with regard to Germany, but was far more strongly influenced by the vote given by Count Stefan Tisza, on 22nd July, on the Polish question. In Hungary it was feared that the Austro-Polish solution would bring about an unfavorable change in the constitution of the Monarchy; for the Dual Constitution

² To Hohenlohe. No. 1297.

³ The Archduke Charles Stephen, son of the Archduke Charles Ferdinand (a grandson of the Emperor Leopold II), was born at Gross Seelowitz in Moravia in 1860. He was an admiral in the Austro-Hungarian Navy. He was closely connected with Poland owing to the marriages of his daughters, the Archduchesses Renée-Marie and Mechtilde, to Prince Jerome Radziwill and Prince Alexander Olgierd Czartoryski, respectively. W. A. P.

established in 1867, which preserved a balance of power between the two States, could not possibly have survived the incorporation of Poland in the Monarchy. Hungary was a country with roughly 20 million inhabitants, Austria without Galicia would also have had 20 million inhabitants, and Russian Poland united with Galicia would likewise have had 20 million inhabitants. Hence a triple division of the Monarchy would have arisen, which would have involved the replacement of the dualistic by some kind of trialistic constitution. But since, with such a constitution, a combination of two of the partners might place the third in a minority, Hungary would not hear of it. It was considerations of this sort which must have decided Count Tisza to take sides for the German proposal, *i.e.*, for the German-Polish solution.

CHAPTER III

AGREEMENT AS TO THE BUFFER-STATE SOLUTION

CONVERSATIONS were now carried on for some time about the German-Polish solution. On 27th July, Baron Burián declared himself in agreement with the creation of a sovereign State of Poland in the form of a kingdom.¹ This was also to include Lithuania; but the Polish provinces hitherto belonging to Germany or Austria-Hungary, *i.e.*, Posen or Galicia, were to remain outside Poland. The Austro-Hungarian Monarchy aimed at acquiring an equal footing with Germany within this Polish State, in respect of all the military, economic, and political privileges which Germany wished to reserve to herself there. This equal footing was later to be set forth in detail in a special Convention. But Austria-Hungary maintained firmly that Poland's autonomy should suffer as little limitation as possible, that the sovereignty of the Polish King, apart from the privileges to be agreed upon, should be absolute, and that the Polish Constitution should be framed in consultation with Poles.

In August these principles were further developed in a conversation between those responsible for the foreign policy of Germany and Austria-Hungary, respectively. The official report of this conversation is as follows:

"It was agreed that an independent kingdom of Poland shall be established, as an hereditary, constitutional monarchy. An announcement shall be made as soon as possible by the two Allied Monarchs as to the intention to found this national State, but the actual framing of the new State must be reserved till a later date after the end of the War. So long as the War lasts, Poland must remain an occupied territory or military area. In this connection the desire was expressed that the Customs barriers and obstacles to communication separating the German from the Austro-Hungarian occupied territory should be as far as possible done away with. The two Governments concerned will enter into negotiations on this subject.

"A decision will be arrived at later as to the exact delimitation of

¹ Private letter of Baron Burián to Prince Hohenlohe of 27th July 1916.

the new State, which should be formed in the main out of Congress Poland. The German Imperial Chancellor announced that the detachment of certain portions of the existing area of Russian Poland would be desirable for the military protection of the German frontier, but they would be confined to what was absolutely necessary from the military point of view. The Government of Suwalki is not to belong to the new kingdom. Baron Burián declared himself to be in agreement with this in principle, and for himself also reserved a claim to such military frontier rectifications as might be desirable from the Austro-Hungarian point of view. He further expressed the wish that as far as possible those portions of Lithuanian territory with a predominantly Polish population—above all the city of Vilna—should be added to the Polish State. The German Imperial Chancellor expressed himself in agreement with this in principle. Finally, the Polish State shall be extended as far eastward as can be effected by the peace with Russia.

“The internal administration of the Polish State is to be left to itself, with the reservation of a suitable transition period. As regards foreign policy Poland will be attached to the alliance between the two Central Powers; Poland can not conduct an independent foreign policy. The ultimate limitations of Poland’s ambassadorial rights are reserved for further consideration. Poland is empowered to conclude treaties with other States only in so far as the terms of these treaties are not in contradiction with the limitations contained in the agreements of the two Central Powers. For this reason treaties must be previously submitted to the two Central Powers.

“Poland obtains her own army. The necessary agreements as to its establishment, as well as for the whole organization of military relations, are to be prepared by a joint military commission. Baron Burián will advocate that the control and higher command of the army shall be united and fall to Germany. The conclusion of the requisite military Conventions on behalf of the two Central Powers will follow in accordance with the view expressed above.

“As regards economic matters, the German Imperial Chancellor advocated the necessity of drawing the Polish State into the German Customs area, and that from the point of view of the Polish State’s own economic interests. Baron Burián, on the other hand, upheld the view that both the Central Powers must have equal economic rights

in Poland, whereas a Customs Union with Germany would entail damage to Austro-Hungarian interests, and would also be very open to objection on political grounds; for which reason a purely Polish Customs area should be formed. It was agreed that the question of the practical effects of the different Customs systems is first to be examined by experts. Baron Burián promised to despatch such experts to Berlin as soon as possible.

“A plan was mooted for forming the Polish railways, which were almost entirely the property of the Russian State, into a limited company, the ownership of the shares to be divided between the Central Powers.

“The two Central Powers reciprocally guarantee each other, by means of a special treaty, that no portion of the Polish territory hitherto held by them may be allotted to the new Polish State.”

CHAPTER IV

THE QUESTION OF POLAND'S ECONOMIC RELATIONS

IMMEDIATELY afterwards, the question of the future economic relations between Poland and the two Central Powers, which had been left open in the resolutions quoted above, became a prominent subject of discussion.

In a conversation between Austrian and Hungarian Ministers, on 16th August,¹ the opinion was generally arrived at that the incorporation of Poland in the German Customs area would be more unfavorable for Austria-Hungary than an autonomous Polish Customs area. The Poles were also certain to prefer the latter solution. In any case, care must be taken that Austria-Hungary's position in Poland should be in no way inferior to that of the German Empire; for otherwise the greatest difficulties for Austria-Hungary might arise with regard to Galicia. An independent Poland would also be preferable economically, quite apart from the fact that the regulation of the economic relations between Austria-Hungary and Germany would be made much more difficult if the latter could count upon the resources of Poland. The incorporation of Poland with one of the two Central Powers would, in the opinion of the conference, in any case entail severe detriment to Polish economic life, and more particularly to Polish industry. But since it was extraordinarily difficult to decide Poland's economic destiny without clearer views on other economic questions which would have to be solved after the War, the instructions were to drag out the negotiations for the time being. In the event of an independent Polish Customs area being formed, however, the means were to be examined by which this Customs area would be grafted on to the economic system of the two Central Powers, since this was the only possible way of deterring Poland from an economic alliance with Russia. Preferential treatment on the part of the two Central Powers was stated to be the most suitable solution, but it was indispensable that in this matter they should act

¹ Notes of the joint Ministerial conference of 16th August 1916, with regard to the incorporation of Poland in the German Customs area.

in harmony. A decision as to the scope of this preference—as well as on the questions whether it was to be granted to the two Powers in the same or in a different measure, and whether the Poles could lay themselves open to a claim on the ground of most-favored-nation treatment from one Power because of a concession made to the other—would only be rendered possible when the economic negotiations between Austria-Hungary and Germany had led to a decision on the main question. This whole train of thought showed how difficult a problem had been set to those taking part in the conference by the economic structure of Poland in its relations to the Central Powers, and how far from clear was their attitude towards this problem. The outcome was summed up in the following statement:

“There is agreement that Poland shall constitute an independent and self-contained Customs area. It is arranged, that this independent Customs area shall by common agreement between the two Central Powers be brought into such political tariff relations with the Customs areas of the Central Powers as cannot be objected to by third States. The question must provisionally be left open whether Poland is to receive the same or different preferences from the two Central Powers, and whether the preferences granted to Poland are to be reciprocally applied by the two Central Powers in their own mutual relations. In these matters all avenues to a settlement must for the time be left open.”

From 29th August to 1st September 1916, the question was exhaustively examined at further conferences, in Berlin, between the delegates of the two Central Powers.²

Dr. Helfferich, the German Secretary of State, maintained that the best thing, both for the two Central Powers and for Poland, would be the economic incorporation of Poland in the German Empire. He pointed out the economic difficulties in which Poland would be involved by her separation from Russia, and said that the only way to avert these would be to attach Poland by an economic union to some other large Customs area. It was not, he protested, German interests which suggested this view to his Government, for, in itself, such a union was by no means very desirable, since German industry would find in that of Poland a dangerous competitor. It was inspired solely by considerations which concerned Austria-Hungary

² Report of the ambassador, von Mersey, of 6th September 1916.

quite as much as the vital interests of Poland. From the Polish point of view, arguments for the German solution were to be found in the actually existing flourishing relations in communications, commerce, and finance, and in the fact that Danzig was the natural port of Poland, which would thus, by a union with Germany, recover by natural means what she had lost through her severance from Russia. Were Poland to be formed into an independent Customs area, Polish industry would suffer and Polish agriculture would be hampered in its development. It was to be feared that the discontent thus caused in Poland would lead the Poles to seek reunion with Russia, which would be very serious politically and certainly more dangerous than if Poland were to remain in any case attached to Russia. This danger could only be averted by the closest union with the German Empire.

In reply to this Herr von Merey, the Austro-Hungarian delegate, said that the leading idea of Austro-Hungarian policy in the settlement of the Polish question was to secure the erection of Poland into a State in every respect as independent as possible. That this would be perfectly feasible in the case of its Customs relations was proved by the existence of States far smaller than Poland. The fact that Germany's economic relations with Poland had been intimate in the past could easily be taken into consideration in the event of Poland being established as an independent Customs area. The independence of Poland was for Austria-Hungary a political necessity, and to this view she must adhere, quite apart from any discussions on the possible reaction on the economic situation, which for the time being must be purely theoretical and could lead to no binding engagements. In considering the suggested Customs Union between Poland and Germany, three considerations must from the Austro-Hungarian point of view be taken into account—namely, how it would affect the interests of Germany, of Poland, and of Austria-Hungary, respectively. The first of these Herr von Merey proposed not to discuss. It was beyond dispute, he said, that the economic incorporation of Poland would bring considerable advantages to Germany; yet this fact was not decisive, since it was not envy or jealousy which inspired the negative attitude of the Monarchy towards the German project, but the belief that its realization would do harm both to Poland and Austria-Hungary.

On behalf of Germany it was now argued—in particular by Dr.

Richter, Under-secretary of State—that it was doubtful whether an economically independent Poland would be able to exist. The reference to other small States was beside the mark, for in their case it was a question of a gradual historic development, while Poland was to be suddenly torn by force away from the economic organism to which she had hitherto belonged, and within which she had developed. As regards agriculture Poland produced sufficient for her own maintenance and was so capable of development that she would probably be able to export produce. Certain agricultural crops, *e.g.*, potatoes, had already been exported in considerable quantities to Russia either in a natural state or converted into spirit. But if these Russian sales were now cut off, a market must be sought in another quarter. In this respect Germany offered a much-wanted outlet. This was true to an even greater degree for Polish industry, which could find no market in its own land. The cotton industry would be able to survive only if it could export to Russia, or find another market, and Germany was the only other market worth considering. If this were closed to her industry by Customs frontiers, Poland would be forced to seek another outlet, either overseas or by returning to her dependence on Russia. By no forcible means could a fiscally independent Poland be deterred from this. As regards finance, Poland would have difficulty in standing on her own feet. She would not be in a position to raise the funds for her army, the construction of communications, etc. Nothing more could be expected from direct taxation, according to the former system of taxation and the whole assessment of the country and its population; indirect taxation had already been strained to the limits of its productivity and a further increase could only lead to discontent in the country. The Customs would therefore form the chief source of revenue. Hence, in order to arrive at a higher revenue, Poland must impose very high customs duties, by which she would cut herself off increasingly from foreign countries. But in the case of a Customs Union Germany could allow Poland a high enough quota of the Customs to enable her to exist financially. From the point of view of the Polish sentiment of independence, too, it was argued on the German side, the attachment of Poland to the German economic area was to be preferred, for it would not be possible to grant Poland an unlimited right to conclude commercial treaties, and economic servitude in this matter would produce a far stronger feeling of dependence than if Poland were to

form part of the whole great complex of the German national economy. Besides, if Poland were economically independent, Germany would not be in a position to contribute towards improving the means of communication in Poland, more particularly the regulation of the Vistula and the provision of a route by water to Danzig on Polish territory.

On the Austro-Hungarian side the chief stress continued to be laid on the political aspects of the question. It was true that Poland might have to accept certain limitations of her military and political independence, but at least economic independence ought to be conceded to her. It was by no means to be taken for granted that the right to conclude commercial treaties independently of the Central Powers could not be conceded to Poland; and in any case, a Customs Union would be a more far-reaching and more oppressive limitation of autonomy than any demand that might be made for the consent of the Central Powers to particular commercial treaties. Doubt was also thrown on the truth of the contention that, because of her over-production, Poland could not exist as an independent Customs area. According to *The Trade Balance of the Kingdom of Poland*, a work published by the Society of Polish Industrialists, Poland had an adverse balance of 60 million rubles in respect of the produce of agriculture, market-gardening, cattle-raising, and the industries connected with them. This discrepancy was covered by corresponding imports from Russia, representing a value of 75 million rubles, and only thus was it possible for Poland to export to the value of 15 millions. The trade balance against Poland in grain alone was 11.7 millions, in meal 19.2 millions; so that the production of Poland did not suffice for her own needs. It was therefore idle to suggest that Poland should be incorporated in the German Customs system in order to provide her with an outlet for a surplus of agricultural produce which in fact did not exist. Nor was it possible to reckon upon a speedy increase of her agricultural production, and particularly of her grain crop, in consequence of a change in the economic allegiance of the country, for the average yield of the soil in Poland at the time was already considerably in excess of that of Russia, and stood more or less on a level with that of Galicia. Hence a change in the economic allegiance of the country could not in itself bring about an increase of the productivity of the soil. The necessary conditions of this were more rational methods of

development and an agrarian reform; but this touched such a delicate point in the social and national structure of the land, that it would be more easily introduced by an autonomous national government than through German initiative or under German influence. As regards the state of Polish industry, trade statistics showed that the industries concerned in the working up of raw materials were to a large extent dependent on foreign factors. The adverse Polish trade balance for the raw materials of industry amounted to about 180 million rubles, a third of which was met by imports from Russia, and two-thirds by imports from abroad. In the violent demand for the raw materials of industry which was to be expected after the War, Polish industry would hardly be in a position to meet her demand for raw materials in time, least of all in the event of a Customs Union with Germany, since German industry was sure to expect to provide for itself first out of the raw materials imported into the German Customs area. The trade balance of Polish industry as regards manufactured articles showed a credit side of 176 million rubles, composed entirely of her surplus exports to Russia (194 million rubles in the textile industry and 20 million in the leather industry), since Poland had an adverse balance in all other classes of manufactured articles. Poland's industrial exports to Russia amounted altogether to 325.2 million rubles, against which must be set foreign imports to the amount of 148.6 million rubles. While, then, it was established that Polish industry owed its development to its Russian market, it could also be shown that Russian industry had found a wide market in Poland; the annual value of the deliveries to Poland of Russian industrial products might be calculated at 135.4 million rubles, 70 million of which fell under the head of textiles alone. From this it followed that, in the event of the formation of an autonomous customs area by the separation of Poland from Russia, the home market would offer Polish industry a notable compensation through the exclusion of Russian and other foreign competition; whereas in the event of a fiscal incorporation with Germany, this advantage would be in any case lost to German industry. Hence, with regard to industry, too, a Customs Union with Germany was to be regarded rather as a drawback to the economic development of Poland. Finally, with regard to the financial objections raised on the part of Germany, it was emphasized by Austria-Hungary that this question still called for a thorough ex-

amination of the productiveness of Poland's sources of revenue, which must not be allowed to be increased from the source of the customs dues only.

On Germany's part the question was also raised of making the Russian market accessible to Polish industry during a specified transition period, in which matter Poland was on no account to be left to her own devices, since she might then seek to attach herself to Russia. But Russia was interested in keeping to her former purveyors of cotton and woolen goods for a time, so that it would be well to allow the establishment of a transitional régime. Austria-Hungary's attitude towards this idea was sceptical, since Russia had no reason to make the new state of affairs pleasant to Poland, or to facilitate the transition. Apart from this, it was pointed out that such a traditional régime would only fulfill its object for Poland if it could be established for a long time, for example, ten years. This would, however, be of dubious effect, since it would draw attention clearly to the indispensability of Russia to Poland, and at every stage of the successive increases of the customs dues new complaints would arise from the Poles. The Poles would be more likely to accept economic separation from Russia as part of the price of their economic independence; and on this account a transition period would hardly appear acceptable even from the political point of view.

On the Austro-Hungarian side fears were also expressed that a fiscal union of Poland with Germany would be detrimental to the economic interests of Austria-Hungary. It was to be feared that German agriculture and industry, which would feel themselves damaged by the union with Poland, would find compensation at the expense of Austria-Hungary's industrial exports to Germany. Hitherto Germany and Austria-Hungary had been similarly situated in Poland; through a fiscal union of Poland with Germany the Monarchy would be deprived of this equal status, and thus placed in a less favorable position than before the War. Besides, if a Poland economically united with Germany were to be obtruded between the Monarchy and Russia, the Monarchy would fall into a state of complete dependence on Germany for her through trade also. On the German side, the intention of gaining special advantages for German agrarian or industrial interests from the Customs Union with Poland was resolutely disclaimed, but it was made clear that

Germany would, in any case, require a certain degree of agrarian protection against the Monarchy. As regards Poland's industrial exports a possibility would thus be offered of turning aside the rush of Polish manufactures into the German market during a short period of transition, by fixing a certain quota of exports to Russia at a reduced customs rate. Moreover, a leveling effect might be exercised by intermediate customs rates between Germany and Poland, which would also have to be levied by Austria-Hungary on goods of Polish origin. With regard to the equal status of the two Central Powers in the Polish market, the remedy for Austria-Hungary would lie in the granting of privileged rates for her special export articles. Transport through Poland would of course remain unimpeded and could be regulated by a system of bonding. The greatest difficulties might be expected in economic negotiations between Austria-Hungary and Germany, if they had to come to an agreement with Poland as an economically autonomous State. A third party would then be introduced whose goods traffic *en route* for the two Central Powers would be hampered by a complicated system of intermediate duties, certificates of origin, and so forth. Besides, it would be better on principle to prevent the possibility of the two Central Powers, which were about to enter into closer economic relations with each other, not conceding to each other most-favored-nation treatment in every respect. Since Germany could allow Poland to export certain articles duty free, by which the Polish national economy would profit without detriment to Austria-Hungary, while a similar concession could not be made to Austria-Hungary, the German-Polish Customs Union appeared from every point of view the most suitable solution.

The delegates' conversations came to an end without arriving at any agreement. For some time to come economic questions were in the background, and they came to the front again only after the fundamental tendencies of the Polish question had undergone a complete change.

CHAPTER V

PROCLAMATION OF THE KINGDOM OF POLAND

IN October 1916, two requests were formulated by Germany with regard to Poland in view of the military situation.¹ The first was that a Polish army might be formed as soon as possible, to fight on the side of the Central Powers, especially against Russia. The other was that Austria-Hungary should hand over the General Government of Lublin to the German military authorities.

These requests were thoroughly discussed at the meeting, on 18th October 1916, at the German headquarters at Pless between the German Imperial Chancellor, Bethmann-Hollweg, Baron Burián, the Austro-Hungarian Minister of Foreign Affairs, and the heads of the two Army Commands. As regards the question of the Polish army, it was decided that a mixed commission should meet in Warsaw as early as 23rd October, in order to make preparations for its organization. At the close of the labors of this commission, the proclamation of Germany and Austria-Hungary to the Polish nation was to be published, recognizing the independence of Poland. The recruiting and organization of the Polish army, which was to consist of volunteers, was then to be proceeded with without delay. The demand for the cession of the Government of Lublin to the German military authorities was resolutely refused.

On the 5th of November 1916, the proclamation of the two Powers was solemnly promulgated at Warsaw.² On the 21st the Emperor Francis Joseph died; and shortly afterwards Baron Burián resigned the Ministry of Foreign Affairs to Count Czernin.³

¹ Daily Report of the Minister for Foreign Affairs, 10th October 1916.

² Telegram of Baron Andrian of 5th November 1916. No. 187.

³ As early as November 1915 Burián had suggested that Germany should pave the way to peace by guaranteeing the independence of Belgium and renouncing publicly all intention of making annexations in the West. His persistence in putting forward this view led to very strained relations between the Cabinets of Berlin and Vienna. The last important official act of Burián as Foreign Minister was the note of 12th December 1916, which put an end to this quarrel. Ed.

CHAPTER VI

DEADLOCK IN THE NEGOTIATIONS

THE decision as to Poland's definitive destiny, with which the Cabinets of Germany and Austria-Hungary had been so much occupied from the middle of 1915 to the middle of 1916, fell rather into the background during Count Czernin's early days of office. He himself in his *Memoirs*¹ relates that in January 1917 he took up a sceptical attitude towards this question at a meeting of the Austro-Hungarian joint Council of Ministers. He held that the War ought not to end in a peace dictated by the Central Powers, which meant that the Polish question also ought not to be solved without the co-operation of the Entente. Moreover, whereas Baron Burián had agreed to the German-Polish solution, Czernin now indicated that his chief aim was to remain in Poland and, at the conclusion of peace, to achieve the Austro-Polish solution as the outcome of negotiations with the Entente as well as the Allies of the Monarchy. He based his hopes of this chiefly on the fact that some of the Polish politicians had declared in favor of it. There was also a hope that, if Poland acquired the right of self-determination, and if the War came to an issue half favorable to the Central Powers, Poland would of her own accord declare for union with Austria-Hungary. Count Stefan Tisza on this occasion once more opposed this solution and declared himself in favor of Austria-Hungary handing over her claims on Poland to Germany in return for financial and economic concessions. His Austrian colleague, Count Clam-Martinitz, on the other hand, advocated the Austro-Polish solution.

About the same time, on 22nd February 1917, Count Tisza addressed to Count Czernin a private letter, in which he insisted that "in the unlikely but not impossible event of a recrudescence of the Austro-Polish solution," an incorporation of Poland in the Monarchy should on no account be allowed to affect its dual structure. In this letter he set forth the reasons why Poland should not be given an equal status with Austria or Hungary, but should be united with Austria, so that the Monarchy would continue to con-

¹ P. 281.

sist of two parts possessing equal rights. Tisza's opposition also played a part in letting the Polish problem rest for a while.

The time was occupied in the organization of Poland as a State. In May the provisional Council of State had drawn up a memorandum relating to this, which led after long negotiations to the Patent of 12th September 1917. By this Patent a Council of Regency consisting of three members was set up, which was to exercise the supreme power in the kingdom of Poland, until it was taken over by a king or regent, and was to be supplemented by a responsible Ministry. The legislative power was conferred upon the Council of Regency jointly with the Council of State. This Council of State, whose seat was declared to be Warsaw, had a hundred members. Among these were twelve directly nominated members (six Catholic Bishops, two Protestant Superintendents, the President of the Jewish community of Warsaw, two Rectors of Universities, and the First President of the High Court), fifty-eight members elected by the town councils or district assemblies and thirty members nominated by the Council of Regency. The Council of State, whose deliberations were to be private, was granted the right to propose projects of law, to decide points connected with the budget, and to draw up a draft Constitution for Poland and the order for electing the Chamber of Representatives and the Senate, which would together form the future Polish National Diet (*Sejm*). New taxes could not be imposed nor existing ones increased without its consent.

CHAPTER VII

THE AUSTRO-POLISH SOLUTION REVIVED

IN the early part of 1917 the situation was profoundly modified by the collapse of Russia, and the consequent probability of the permanent severance of Poland from the Russian Empire. This once more brought to the front the question of how best to settle the Polish question in the interests of the two Central Powers.

In Germany there had, meanwhile, been a growing doubt as to the wisdom of asserting a German hegemony over Poland, which it was thought might easily prove too heavy a burden for the Empire. The soldiers, indeed, still insisted that Germany must maintain some sort of domination over Poland; but the politicians, to whom the revival of this thorny question was by no means welcome, were more inclined than ever to think that Austria-Hungary, with her already mixed nationalities, would be better able than Germany to shoulder this burden. In Poland, too, opinion was inclined to favor union with the Hapsburg Monarchy. Moreover, a few German statesmen, including Count Hertling,¹ the Imperial Chancellor, hoped that the handing over of Poland to Austria-Hungary would achieve an aim which they regarded as more important, namely, the economic alliance between the two Central Powers. Lastly, certain personal changes which had taken place during this year favored a revival of the Austro-Polish solution. Herr von Kühlmann in particular, who was now responsible for the conduct of Germany's foreign policy, had always favored this solution. On the other hand, Count Tisza, who had been its most uncompromising opponent, had resigned office in May.

In the course of conversations which took place with Count Czernin on 1st and 6th September 1917, in Berlin and Vienna, Herr von Kühlmann himself took the initiative in reviving the Austro-Polish solution. He was prepared, he said, to support this solution, and to raise no objections to a public agitation in its favor, if the Monarchy in its turn would consent to aid in reinforcing the

¹ Count Georg von Hertling succeeded Herr Michaelis as Chancellor in October 1917. Ed.

existing alliance by means of military conventions and closer economic relations, to allow certain rectifications of frontier in Germany's favor at Poland's expense, and to guarantee Germany's economic and financial interests in Poland. These proposals Count Czernin was inclined to accept; but he requested that the cessions of territory should be reduced to a minimum,² and declared that Poland must be compensated for these on her eastern frontier. He raised no objection in principle to a military alliance, and proposed that as a preliminary step the two Army Commands should come to an understanding in the matter. Finally, he requested that the prerogative of the Sovereign in Poland (for he was dreaming of a personal union with Austria-Hungary) should not in any way be limited, laying particular stress on the necessity for abrogating the agreement between the two Emperors as to the future supreme command of the Polish army.

On a later occasion Count Czernin defined more closely his proposals with regard to the frontier rectifications demanded by Germany.³ He declared his readiness to agree to the cession to Germany of the northern portion of the Government of Suwalki, in return for which Poland was to receive the district of Bialystok, the population of which was preponderantly Polish. There was no need to enter into any detailed discussion of the terms of the proposed economic alliance between the two Empires, since negotiations on this matter were proceeding.

In conversations with leading Polish politicians the plan was considered of first waiting for the conclusion of peace with Russia, after which the Polish Council of Regency, on the ground for a national mandate, was to offer the royal crown of Poland to the Emperor-King Charles, who would have himself crowned King of Poland six months later.

The toleration of agitation in favor of the Austro-Polish solution led to a flood of addresses from Poland urging the union with Austria. There was, however, still some opposition to it in Poland, where the cry was raised that the Poles must be allowed to elect their own sovereign (Candidate Solution). In Germany, too, opinion was by no means universally in its favor; and it was widely believed that

² To Prince Hohenlohe, 8th November 1917. No. 6020.

³ To Herr von Kühlmann, 14th December 1917. No. 6501.

the opposition in Poland was largely inspired by German military circles.

Apart from the increase in power and prestige which it would have brought to the Monarchy, the Austro-Polish solution would have been advantageous to Austria-Hungary in several ways. It would have solved the Galician question without loss of territory to the crown and obviated the danger of Polish irredentism threatened by any other solution. Upon the internal situation in Austria, too, the separation of Galicia would have had a favorable effect, for it would have placed the Germans in a majority in the *Reichsrat*. From the German point of view this solution had also its advantages. It would, in the first place, have secured the eastern frontiers of Germany. It would also avoid the troubles sure to arise, were the German-Polish solution adopted, owing to the deep-seated hostility between Germans and Poles in the East Prussian provinces, which would have made it necessary to govern Poland as a conquered country. Lastly, the Austro-Polish solution seemed to be favorable to the Poles, since it restored Galicia to Poland. They had, moreover, been comparatively well treated in the old Austria.

The Emperor William was won over to the Austro-Polish solution by Herr von Kühlmann, during the journey he made to Constantinople in the autumn of 1917. He was not easily persuaded; and, if he finally agreed, this was because he thought that by doing so he would promote the closer union between Germany and Austria-Hungary which he had at heart. But the Emperor Charles, too, had never had any enthusiasm for the Austro-Polish solution. He had seen clearly, from the time he came to the throne, that there was no prospect whatever of the Central Powers gaining such a victory as would enable them to come to an independent decision on so important a question as that of Poland; and he therefore regarded the preparation of plans for the settlement of this question, without the coöperation of the Entente Powers, as an idle game. It was, moreover, in his opinion a dangerous game; for it was calculated to increase distrust of the Central Powers, and so to make the chances of an agreed peace more remote. Nor was he attracted by the idea of that closer military and economic alliance with Germany which was to be the *quid pro quo* of the Austro-Polish solution. He disliked it in itself; and he also feared that its realization would put another formidable obstacle in the way of a general peace by agreement. He

therefore repeatedly expressed his desire publicly to renounce the Austro-Polish solution; and Count Czernin, in numerous telegrams from Brest-Litovsk and Bukharest, had as repeatedly to adjure him not to do so.

CHAPTER VIII

CONSTITUTIONAL PROBLEMS INVOLVED IN THE INCORPORATION OF POLAND IN AUSTRIA- HUNGARY

It was clear that in the event of the incorporation of Poland in the Monarchy, the constitutional structure of the Monarchy, already highly complex, would become yet further complicated. No thorough discussion of this aspect of the question had yet taken place, but the difficulties were clearly seen.

The Hungarian view, as represented by Count Tisza, was that, if Poland were incorporated in the Monarchy, the Delegations charged with its common concerns would have to be elected, on the one side by Austria and Poland in common, and on the other side, as before, by Hungary alone. The Austrian view, however, was that this was impossible. In Vienna the idea was to connect Poland with the Monarchy by a personal union, which would involve not only the person of the sovereign, but a number of other matters to be settled by agreement. Those laid down as unconditionally common were the order and rights of succession to the throne (in accordance with the Pragmatic Sanction) and foreign affairs. Poland was also to form one Customs area with the Monarchy, and there was to be a common currency. As to external defense, it was agreed that this must be a common concern, but opinions differed as to the constitution of the army, one suggestion being that each of the three countries, *i.e.*, Austria, Hungary, and Poland, should have its own army, all three being under a common Higher General Staff, composed of officers detailed from the three smaller General Staffs, of which the official language should be German.

Legislation on matters of common concern was sure to present great difficulties, and to overcome these several alternative plans were suggested. It was proposed, in the event of Poland being represented in the Delegations, to avoid the undue preponderance of one national element by laying down that all decisions must be arrived at in a mixed session by a three-quarters majority. Another suggestion was that the Delegations should be abolished and the Ministers

of War and Foreign Affairs be made directly responsible to the separate Parliaments. A third alternative which was considered was to leave the Delegations unaltered, that is to say, not to include the Poles in them, all matters of common interest being dealt with by a Polish Parliamentary Commission sitting at the same time and place.

None of these alternatives had any chance of pleasing everybody; and to the end the constitutional means of grafting Poland on to the Monarchy remained obscure. The discussions on the subject had, indeed, been wholly of an unofficial nature. Official attitude towards this question there was none.

CHAPTER IX

COUNTER-CONCESSIONS DEMANDED BY GERMANY

PARTICULARLY lengthy discussions dragged on as to the conditions under which Germany was prepared to consent to the Austro-Polish solution. These conditions involved partly frontier rectifications of a radical nature, partly economic privileges which Germany wished to secure in Poland, partly closer bonds between Austria-Hungary and Germany not only in military but in economic affairs.

German Frontier Claims.

In December 1917, Count Czernin had informed Herr von Kühlmann of his views on the German frontier claims. After consulting Austro-Hungarian military experts, he declared that Germany's claim for an improvement of her strategic frontier in northern Poland was justified. In the opinion of these experts the cession of half the Government of Suwalki and a large portion of the Government of Lomza was really necessary in order to give Germany a thoroughly good strategic frontier. The area in question included 9,000 square kilometers and roughly half a million inhabitants. "For my own part," Count Czernin explained, with regard to General Ludendorff's emphatically expressed demand for a more secure frontier, "I was unwilling to pronounce myself against these cessions, which go far beyond the limits of a frontier rectification, though I am clear as to this, that the cession in particular of a territory with several hundred thousand inhabitants of purely Polish origin and language, such as would be that of the northern portions of the Government of Lomza, will be hard for the Poles to swallow. I cannot yet assume any binding engagements in this matter, but shall get into touch with the Polish leaders at a convenient season and try to make it clear to them that they must make this sacrifice. At any rate, I am already aware that the Poles, who are looking forward to incorporating, if not the whole of Lithuania, at any rate the preponderatingly Polish portions of that country to beyond Vilna, and setting up the integrity of the kingdom as the absolute condition of any acceptable solution, will keenly criticize the arrangement now proposed by the Higher Army Command. Never-

theless if I obtain the desired result, after sounding all parties affected, I will endeavor to obtain the consent of His Majesty to the whole settlement, of which these cessions would also form a part."

On the German side the possibility of this concession was not considered satisfactory, and the cession of the whole of the Governments of Suwalki and Lomza was demanded.

The second of Germany's frontier claims related to the extension of the frontier south of Thorn as far as the heights of Wlodzlawek. It was not formally accepted by Austria-Hungary and only played a subordinate part in the negotiations.

The Dombrowa Coal-Field.

Among the German frontier claims, the one which was particularly dangerous to the economic development of Poland was that which concerned the Circle of Dombrowa, comprising Poland's coal-bearing district.

The Dombrowa coal-field extends along the Upper Silesian frontier and in the years 1910-1913 produced 341, 361, 394, and 426 million poods of coal. The output in 1913, 426 million poods, corresponds to a weight of 6,978,000 tons. The coal was for the most part hard coal of good quality. Of the 394 million poods produced in 1912, for example, only 9 million poods fell under the category of lignite. The coal from Dombrowa was chiefly consumed in the Vistula Governments of Russia, and so in Poland. Its use outside this territory had indeed a tendency to increase, but in 1912 90.4 per cent of the whole output was disposed of in the Vistula Governments. The value of the coal per pood amounted in the period before the War to from 9 to 12 kopecks; this is what the Russian State Railways appear to have paid for it. Thus the united output of the Dombrowa field had a value of from 39 to 50 million rubles, or (reduced to Austrian currency) from 98 to 130 million *kronen*. Now Austria-Hungary imported between the years 1910-1912 from 10½ to 13 million tons of coal annually, including English coal (steam-coal); so the possession of the Dombrowa fields might at least have made the Monarchy independent of German coal, though it is true that, in the event of the inclusion of Poland in the Austro-Hungarian economic area, the latter would have had to be supplied with other coal. Nine big companies were at work in the

Dombrowa region, *i.e.*, the Franco-Russian Mining Company, which had leased Russian State mines (Franco-Belgian), the Franco-Italian Mining Company (French, with its headquarters at Lyons), the Warsaw Mining and Smelting Company (entirely Polish, but financed by German Banks), the Coal-mining Company at Sosnowice (French, managed by the *Société Générale*), the Czeladz Mining Company (French, headquarters at Paris), the Count Renard Mining Company (French, financed by the *Crédit Lyonnais*), the Saturn Company Ltd. (German-Polish) and the Grodziec Mining Company (German). The first four companies fell within the Austro-Hungarian occupied territory, the last four within the German; the Sosnowice Company worked in both areas. Companies belonging to enemy aliens in the German area were liquidated during the War. Moreover, the Dombrowa field was far from being the largest coal-field in old Russia, for the Donets region produced about three times as much.

At the end of December 1917, Germany expressed a desire to shift the frontier which ran through the Dombrowa field, and divide it between the two occupied areas, eastwards as far as the Vienna-Warsaw railway, and to regard this line also as the future Polish frontier. This desire was motivated by the need of the Upper Silesian coal area for military protection. On the Austro-Hungarian side it was declared that even in the event of the adoption of the frontier line in its proposed position—by which the German coal-mines would extend nearly as far as the Russian, or Polish frontier—the state of affairs would not be changed, for in this case the Dombrowa mines would themselves require protection. On the other hand, the separation of the Dombrowa coal-field from Poland would jeopardize the economic existence of the country, since Polish industry drew most of its coal from Dombrowa. In the course of the negotiations the proposal was put forward by Austria-Hungary that the future frontier of Poland should be fixed at the line which had been drawn up for the protection of the Upper Silesian field in the late autumn of 1914 during the great strategic retreat from Poland, leaving the hill of Grodziec, the most important strategic point of the Dombrowa Circle, in the possession of Germany.

On 28th December, Herr von Kühlmann, during a conversation at Brest-Litovsk, declared this concession unsatisfactory. The German Army Command laid great stress upon the extension

of the frontier as far as was necessary for the protection of the Upper Silesian coal-field. The future frontier must lie about at the railway from Granica to Stremieszye. It was impossible to prolong a state of affairs which might involve, in the case of new military developments, the blowing-up of the Upper Silesian mines on account of the enemy's menace, as had happened in the autumn of 1914. If Poland were to be united with Austria-Hungary, this danger would be less, but Poland had had a troubled past and in any case prudence was necessary in the future. The Dombrowa mines were moreover already for the most part German. But it was geologically established that Austria still had rich coal-fields in West Galicia, the development of which had not yet been begun. It was a pity that the region required by Germany for the protection of her frontier was not a sterile swamp, but that could be no reason for refusing the mines of Upper Silesia the necessary strategic protection.

The Austro-Hungarian reply was that the strategic arguments were not entirely sound. If the frontier were removed to the Granica-Stremieszye railway, German mining works (the Dombrowa mines) would still lie close to the Polish frontier and the Germans would certainly not give up operating them and would certainly not regard the area as no more than a protective strategic one. The Dombrowa mines would then need strategic protection just as the Upper Silesian ones did at present. Poland had always been the sole user of the Dombrowa coal, so that whoever had controlled it would also control the economic development of Poland. In the interest, not of Austria, but of the Poland that was to be created, there could be no question of giving up this territory. That the mines were German property was only partly true, but it could not impair the value of the coal for Poland and Austria. Poland's trade and financial balance—and in the event of her union with Austria, Austria's as well—would be rendered still more adverse if Poland had to meet her demand for coal from German sources.

With regard to the possible coal deposits of West Galicia, they were only dealing with suppositions. In view of the great deficit of coal from which the Monarchy suffered, and which would not disappear even in the event of the incorporation of the Dombrowa coal-field in Austria, the possible existence of new deposits could not be regarded as a reason for giving up those of Dombrowa.

Finally, Herr von Kühlmann declared his readiness to reduce Germany's demands as far as could, in the judgment of the military authorities, be reconciled with her strategic interests. It was therefore resolved to despatch a mixed commission to Dombrowa, in order to devise on the spot a frontier-line acceptable to both parties.

For the guidance of this commission certain proposals were drawn up on behalf of Austria, the gist of which was as follows. It was pointed out, to begin with, that the German claims embraced the part of the district of Bendzin in which were situated the greatest industrial enterprises of Poland, *i.e.*, almost all the coal-mines, the Huta Bankowa Ironworks and the highly developed factories of Sosnowice, Siedlee, and Dombrowa. The strategical value of the frontier-line proposed by Germany was, moreover, illusory; for, apart from the fact that such an industrial area, lying close to the German frontier, would be an even more vulnerable point than the coal-field of Upper Silesia, this area would be no protection for German interests against modern long-range artillery. The frontier-line to be adopted, therefore, should be that of the lines constructed for the defense of the Upper Silesian coal-field in the autumn of 1914, which had been planned by General von Hoffmann and entrenched by Austro-Hungarian troops. If this line were adopted, Germany would acquire the Saturn Company, with its new and highly productive "Jupiter" works near Wojkowice, together with the coal companies of Grodziec and Czeladz and several smaller mines, with a total production of some 21,800,000 quintals (= 2,180,000 tons), *i.e.*, in all 32 per cent of the output of the whole Dombrowa field. This proposition, it was pointed out, was much more favorable to Germany than the German proposition was to Austria-Hungary, for the latter had only left to Poland the "Georg" mine at Niwka, belonging to the Sosnowice Company, and already for the most part exhausted, and the greater part of the mining area of the Warsaw Company. The joint output of these mines amounted in 1913 roughly to 9,500,000 quintals (950,000 tons), *i.e.*, 14 per cent of the output of the whole coal-field.

Increased Tension Between Germany and Austria-Hungary.

The activities of the military commission took a very extraordinary turn. When on 10th January the representatives of the

two Army Commands met at Kattowitz, the German delegates at once defined the frontier-line which the German Army Command considered necessary on strategic grounds. In this they went far beyond Herr von Kühlmann's demands, claiming from Poland an area almost four times as great as that required by him, and even went so far as to demand that Austria-Hungary should in addition cede to Germany a portion of her Galician territory. To this the Austro-Hungarian military representatives obviously could not agree, whereupon the negotiations were broken off by the Germans, on the ground that the Austro-Hungarian delegates were not furnished with sufficiently full powers. This *sabotage* of the settlement was solely the work of the German military men, and political circles in Germany had not even been informed of it. The brusque and tactless attitude of the German soldiers in this matter caused, indeed, much bitterness of feeling and had consequences far more important than anything which they had hoped to achieve by it.

In a conference between the allied statesmen, held in Berlin on 5th February 1918, Count Czernin alluded in a marked manner to the fact that in the matter of the Austro-Polish solution a like good-will was not shown in all German quarters. In support of this statement he pointed, in particular, to the turn taken by the conversations at Kattowitz, when Germany had actually expressed a wish to acquire territory belonging to Austria, which was hard to reconcile with her position as Austria's ally.

Ludendorff's excuse, at this time, was that his sole object had been to frame a reply which should make it clear that Austria's offer, confined as it was to a strip of the Dombrowa field two or three kilometers wide, was wholly inadequate. He had been asked what frontier was necessary for the military protection of Kattowitz. He had answered this question purely theoretically, when he said that an effective protection would only be achieved if the parts of Galicia in question were also to fall to Germany's share. This, however, was not a demand for annexation, and the German demands had been scaled down by bargaining and negotiation. This way of treating the question was always painful to diplomatic circles in Germany, and they tried in every way to obliterate the impression made by it.

The question was frequently discussed again, but without any progress being made. In Germany it led to an *impasse* which, in

spite of the importance of the question, had no relation to its real significance. A leading German politician once related that, comic as it may sound, all Germany had almost lost its head over this question. It had even penetrated to a Crown Council, at which Hindenburg and Ludendorff had threatened to resign over it; while, on the other hand, the possibility had to be faced of the resignation of the Chancellor, the dissolution of the Reichstag, and even the setting up of a military dictatorship, so that in the end nothing remained but to adopt the military point of view. This account may have been exaggerated in jest, but it illustrates the importance attached to this question. The same was, moreover, the case in Austria-Hungary. This is illustrated by Count Stefan Tisza's view of the matter: he said that, however convinced a friend of the German alliance he might be, if such things as the cession of the Dombrowa coal-field to Germany were expected of them he would sooner give up the German alliance. He even went so far as to hold that Austria-Hungary should simply refuse to evacuate the Dombrowa region: "Let the Germans give the order to fire, if they wish to push matters to extremes."

CHAPTER X

POLAND'S POLITICO-COMMERCIAL RELATIONS WITH RUSSIA

DURING the conferences on the politico-commercial position of Poland in relation to the German-Polish solution, which had been held in Berlin in August and September 1918, a suggestion had been made by the Germans that, during the period of transition, Poland should be allowed to enter into close economic relations with Russia. The ostensible motive of this suggestion was to save Polish trade from the ruin that would follow if it were suddenly cut off from its principal market; a motive less ostensible was the fear that the trade thus cut off might be diverted into markets hitherto monopolized by Germany.

The suggestion had been opposed at that time by Austria-Hungary. Now, however, when the German-Polish had given way to the Austro-Polish solution, the positions were reversed: it was Austria-Hungary which, at the instance of the Poles, put forward the suggestion and Germany which opposed it.

On the German side the fear was expressed that if Poland were granted the privilege of continuing to export certain articles to Russia duty free or at a reduced rate, her economic policy would take a still more Russian character, which would have serious political consequences. There was also the fear that, if she granted these remissions of duty for a limited transition period, the extinction of these privileges might contribute towards strengthening the tendencies in Poland which were hostile to the Central Powers. Stress was laid, finally, on the possibility that in the event of the contemplated fiscal union between Austria and Poland, the remission of duty which Poland would receive from Russia might also benefit Austrian industry, so that Austria-Hungary would have a privileged position not only in Poland, but also in Russia.

The reply of Austria-Hungary to these objections was that there was no fear of Poland being turned economically towards Russia in the event of the remissions of duty in question being granted merely for a transition period, for in this case Polish industry, which had in any case been destroyed during the War and had to be built up

again, would be directed from the outset towards a different market. For this very reason no hostile tendencies among the Poles were to be dreaded in the event of a gradual extinction of these privileges. The danger of such tendencies would exist in a far higher degree if Poland were to be suddenly severed from Russia, since the damage which Polish industry would suffer by the separation would be used as an argument for remaining united to Russia. The existing possibilities of development should not be entirely taken away from Poland, which was already heavily burdened by the necessity of constructing her economic life on entirely new principles. Any preference to Austrian industry might be avoided, in case of need, by certificates of origin, or the limitation of amounts allowed to be imported (*Kontingentierung*); moreover, a similar route into Russia would be open for German trade through the Baltic provinces, which Germany wished to retain. Add to this that a great deal of German capital was employed in Polish industry, so that the contemplated remission of duty also benefited Germany indirectly. The main argument was, however, that Germany could not prevent such reductions of duty as might be agreed upon for frontier trade; hence there was no valid reason for not coming to an agreement about it with Russia at once.

Light is thrown upon what lay behind these questions by certain views put forward in the letters exchanged at that time between the then Austrian Minister of Commerce, Freiherr von Wieser and Dr. Richard Schüller, *Sektionschef* in the Ministry of Commerce, on the one hand, and the *Sektionschef* in the Ministry for Foreign Affairs who was in charge of the economic negotiations.¹

"The manner in which the requisitions in Poland were carried out," runs one of these letters, "gives the impression that Polish industry was intentionally destroyed, as for instance when valuable machines were ruined for the sake of quite insignificant metal or leather parts, and by the reckless way in which these were detached. These requisitions have not been paid for. And now the reconstruction of Polish industry is to be made impossible. That is obviously the intention; everything else is a pretext. But it is certain that such proceedings will evoke the greatest hostility towards Germany and

¹ Letter from Baron Wieser, Minister of Commerce, to Dr. Gratz of 10th January 1918; and from Dr. Schüller to Dr. Gratz of 10th and 14th January 1918.

towards ourselves. Moreover, we should have united to us a ruined country, which we could not help to raise and from which we could receive nothing economically or financially. Our plan, on the other hand, is this: we desire free intercourse between Poland and Russia for a transition period of ten years. This interval will enable Polish industry, if not to regain her former position in the Russian market, at any rate to win a position which she will be able to retain later even without any special privileges, especially if Russia, as seems probable, abandons her hitherto excessive protective duties for a more moderate system. Thus Poland will be in a position to work permanently for the Russian market, side by side with Germany. She would at once enter into a practical union with us, and thus come into increasingly closer alliance with the German Empire. Thus she would be able to effect her economic reconstruction and maintain those healthy relations to us and to Germany which are in accordance with her interests. The assertion that a reduction of duties might evoke a movement hostile to us in Poland is quite unfounded and indeed unintelligible. 'Economic orientation in the direction of Russia' is an obscure phrase with nothing behind it. As regards our hypothetical preferential treatment, *i.e.*, the misuse which it is feared that our manufacturers will make of certificates of origin, this is a technical question, which is difficult to solve. Poles and Russians alike would have the greatest interest in seeing that it was really none but Polish goods that enjoyed a preference. The certificates of origin issued at Łódź for textiles coming from that place could easily be controlled and would certainly not be available for our textiles. Moreover, we should willingly be prepared to give all guarantees against misuse of them. Your Excellency's remark that Germany cannot prevent us from arriving at such agreements with Russia later on is both correct and judicious. I would further add that we should have no valid reason for preventing Poland from doing likewise. The German demand that we should give up the remission of duties in favor of Poland shows how little the question has been thought out on the part of Germany. The moment the troops are withdrawn, Poland will be in free communication with Russia. The moment she has to make use of her right of self-determination, Russia will say to Poland, unless she is bound by the Peace Treaty in this respect: 'If you stay with us, free trade between us will continue; if you make an alliance

with Austria, you have no claim on our home market.' This will greatly strengthen the movement in Poland against union with us, which, if it gained the upper hand, would place us and Germany in a difficult political position. But even if this movement were not so strong, Poland will in any case demand facilities for her trade with Russia. We shall bear the odium and the consequences if we do not reckon with these powerful interests, or else we and the Poles will be forced to make great political and economic concessions in order to gain a partial realization of Poland's desire. In spite of this we shall be made responsible for the sacrifice made by Poland, and moreover we shall not be spared the reproach that we have not defended the tangible interests of Poland in concluding peace. The opposition of the German negotiators will impair and endanger the economic future of Poland, the political and economic relations of Poland with us, and our economic relations with Germany."

An agreement with Germany on this question was not reached.

CHAPTER XI

FISCAL RELATIONS OF POLAND TO GERMANY

THE German Imperial Ministries laid special emphasis on the demand that, in the event of the Polish solution being adopted, Germany should not receive less advantageous treatment than Austria-Hungary. They urged that the same fiscal relations ought to exist between Germany and Poland as between Austria-Hungary and Poland. If, that is to say, free trade were to be established between Austria-Hungary and Poland—as was contemplated—the removal of duties at the German-Polish frontier must also be provided for. If, on the other hand, duties were imposed at the German frontier, the same duties must be imposed on goods passing between Poland and Austria-Hungary. At the end of December 1917, Herr von Kühlmann indicated as a *sine qua non* of the Austro-Polish solution the exclusion of any differential treatment of Germany.

This demand was characterized on the side of Austria-Hungary, not as in itself unjustifiable, but as impossible of fulfillment. Free trade between Poland and both Germany and Austria-Hungary could not be established so long as customs duties between Austria-Hungary and Germany existed; for were it to be thus established, dutiable goods from one Empire would come into Poland free of duty and from thence would reach the other Empire duty free, so that the whole force of the duties between Germany and Austria-Hungary would be rendered illusory.

In February 1918, as a way out of this difficulty, it was proposed by Germany that Poland should be allowed to form an independent Customs area. This had been the view of Austria-Hungary at the time when the German-Polish solution held the field, and it had then been opposed by Germany. A complete change of front had now taken place, Germany wishing to secure the maintenance of Poland as a separate Customs area, while Austria-Hungary favored a Customs Union of Poland with her own territories. This changed attitude on the part of Austria-Hungary was, however, due to the peculiar situation which would have been created by the projected union of Galicia with Poland. For if Poland, with Galicia, were to be erected into an independent Customs area, in which

Germany and Austria-Hungary had equal rights, this would mean that Austria-Hungary would lose one of her most important markets, since she would be exposed in Galicia to the full weight of German competition. This difficulty was recognized by Germany, and it was therefore proposed that the future Customs frontier should run between Galicia and the remainder of Poland. This solution, however, was hardly feasible, since the Poles would not have remained content with an arrangement which would have divided their small country into two separate Customs areas.

In these conditions the question of the future politico-commercial position of Poland led necessarily to the question of the economic relations between Germany and Austria-Hungary. This was the point at which the Austro-Polish solution always stood in intimate connection with the question of an economic *rapprochement* and alliance between the two Central Powers.

This view found uncompromising expression in all the negotiations about the Austro-Polish solution, and particularly during the conversations between Ministers which took place in February 1918 at the Imperial Chancery in Berlin. In the course of this conversation Freiherr von Stein, the head of the German Economic Department, declared that the German Government had always regarded it as a *sine qua non* of the Austro-Polish solution that Germany should not meet with more unfavorable treatment in Poland in economic matters than Austria-Hungary. This demand was based on the fact that German exports to Poland amounted to fifteen or sixteen times as much as Austro-Hungarian exports. But should it prove impossible to obtain the adoption of the German view in this matter, the German Government must reserve the right to revise the agreement they had extended to the Austro-Polish solution. With these views Dr. Helfferich expressed his agreement.

The discussion, which threatened to become acrimonious, was now diverted by Herr von Kühlmann and Count Roedern, the Imperial Minister of Finance, to the Central European solution, which was calculated to take the edge off the question of Poland's politico-economic relations. With regard to this, Dr. Gratz, on behalf of Austria-Hungary, drew attention to the results of earlier conversations on the Central European question and repeated the opinion that there could be no question of anything more than a treaty establishing a system of reciprocal preference. Under this treaty

some two-thirds of the duties might be abolished and provision made for the reduction of the rest every five years, the sole guiding principle being that the general level was not to be raised. This seemed to satisfy the Germans from the point of view of the Polish question too. Freiherr von Stein, however, remarked that in his opinion a common economic policy was more important than a common tariff system.

In the end, it was tacitly agreed to shelve the question of the future fiscal relations of Poland until those between Germany and Austria-Hungary had been more clearly defined. On the German side it was hoped under pressure of the Polish question to arrive temporarily at a full Customs Union between the two Powers with reciprocal free trade. But it appeared probable that, even in the event of a preferential treaty, no objection would have been raised to the incorporation of Poland in the Austro-Hungarian Customs area, and to its being bound to Germany by the same preferential treaty as should be concluded between Germany and Austria-Hungary.

CHAPTER XII

QUESTION OF THE STATE DEBT

THE German Imperial Treasury attached great importance to the demand that Poland should take over part of the war debts of the Central Powers, under the name of a Liberation Debt. The German proposal was that all the formerly Russian territories which had fallen, under the Treaty of Brest-Litovsk, within the German and Austro-Hungarian spheres of interest should, for this purpose, be regarded as one whole. This whole territory should, it was suggested, assume a portion of the German or Austrian and Hungarian debt proportionate to the part played by the German or Austro-Hungarian arms in its liberation. The German view was that this proportion would work out at about two, for Germany, to one, for Austria-Hungary.

On the Austro-Hungarian side the possibility of such a transference was questioned, since it had no clear justification in public law, while it would be hard to persuade Poland voluntarily to take over foreign States' debts; it was, moreover, undesirable to put this further burden on a country which had to meet such heavy charges for reconstruction. Austria-Hungary, however, was at the same time considering the possibility of making the union of Galicia with Poland dependent upon the latter taking over part of the Austrian war debt.

A certain tension arose over this question during the conversation which took place on the 5th of February 1918, at the Imperial Chancery in Berlin. Count Roedern, the German Imperial Minister of Finance, put forward a proposal to transfer to the Eastern territories (Poland, Courland, Lithuania, etc.) a portion of the German and Austro-Hungarian war debt amounting to 10 milliards of marks. These countries, he argued, could not be allowed to remain exempt from debt, for otherwise there would be a general flight of capital to them. The united territorial acquisitions in the east had a population of no more than 12-15 million souls, of whom some 10-12 millions would, in the event of the Austro-Polish solution being adopted, fall to Austria. In spite of this, Germany was conditionally prepared to agree to a solution by which the 10

milliards falling to the share of the newly acquired territories, and to be taken over by them, should be equally shared between the territories falling to Germany and Austria respectively; this would give an advantage to Poland, in view of the difference in population. As to the details, this was a question of sharing, which would form part of those settlements which, after the War, would in any case be necessary between Germany and Austria-Hungary. This proposal was not at once agreed to by Austria-Hungary. A compromise was meanwhile put forward on her behalf, by which Poland would have had to take over the redemption of the German requisition notes, the redemption of the Polish marks issued during the occupation, and finally compensation for the investments made by Germany in Poland. The solution of this question was reserved for the final negotiations on the subject.

CHAPTER XIII

RAILWAY QUESTION

AMONG the demands made by Germany, in the event of an Austro-Polish solution, was that for the acquisition of a proportionate influence over the Polish State Railways.

The railroads situated in Poland represented for the most part, before the War, the property of the Russian State. The State Railways in Poland had a length of 3,300 versts, *i.e.*, roughly 3,500 kilometers. There were in addition about 300 versts of privately owned lines and a railway system of roughly 1,300 versts¹ outside Congress Poland, but on the Russian occupied territory. The main lines had been laid down between 1842 and 1848 or in 1859 (connection with Upper Silesia). Three different types of railway were to be found in Russian Poland: the broad Russian gauge, the standard European, and the one-meter gauge. The portion of the line constructed by the State from Warsaw to Granica (connection with Austria) and Lowicz (connection with Germany) had been laid from the beginning in standard gauge and a plan which had been considered before the War for re-laying this line on the broad Russian gauge could no longer be carried out. As a result of the difference of gauge, the railways in Russian Poland could not be used by German and Austro-Hungarian rolling-stock at once after the occupation. They had to be converted at a heavy cost; and since the railway material captured in Russia had been constructed partly for the Russian gauge, this too could not be utilized, and Germany had to provide the rolling-stock required for the working of the railways. There were large gaps in the Polish system of communications, especially in the fertile, thickly populated region of the Warta, and along the Austro-Russian frontier. In the latter region, for instance, along a stretch of more than 500 kilometers (between Granica and the Rowno-Lemberg line) there did not exist a single

¹ See *Materials for the Peace Negotiations: Russian Railways*, by *Sektionsrat* Dr. Friedrich von Boshan (Vienna, April 1916) and *Economic Geography of the Royal and Imperial Administrative Area of Poland with a view to a new United Poland*, by Dr. Herman Leiter. These works were intended for the confidential use of the Minister for Foreign Affairs.

railway connection between Poland and Austria, though on the Austrian side seven railways ran nearly up to the frontier, and yet another five lines were stretching out towards new connections. It was not till during the War, when Russia for a time treated Galicia like a Russian province, that three further connections were constructed between the Russian and Galician railway systems. It appears from the very careful calculations made by Dr. von Bosehan, in the report referred to above, that the Polish railways for the most part paid well. Bosehan estimated that these railways, apart from the lines built during the War, represented a revenue which, if calculated in Austro-Hungarian currency on the basis of the 6 per cent capitalization of State and private railways, amounted to roughly 1,560 million kronen, or, if capitalized at 5 per cent, to 1,863 million kronen. The question of the Polish railways was thus of great importance also from the financial point of view.

Germany was particularly intent on gaining control of the Polish railways, partly for strategic reasons, partly with a view to her trade with Russia; and to this end she proposed their transfer to a private company, of which she would hold the stock. In justification of this demand, Germany pleaded the great outlay on the Polish railways she had incurred during the War, the necessity for providing yet more German material if traffic on them was to be maintained, and the great economic interests in Germany which were bound up with the control of the lines communicating with Russia and the Ukraine.

On the Austro-Hungarian side these demands, too, met with a doubtful reception, since no State will readily allow such a limitation of its rights over its most important system of communications. Besides, in view of the admittedly flourishing state of the Polish railways, a notable financial loss to Poland would have been involved. It was therefore proposed that Poland should retain her railways, but compensate Germany for her investments and conclude a Railway Convention with Germany in which the latter's interests in through traffic with the east should be safeguarded. In particular, an agreement was projected, by the terms of which Poland would undertake to grant to German goods from the frontier onwards the same railway rates as to her own.

During the peace negotiations at Bukharest, when similar projects had also cropped up in passing with regard to the Rumanian

railways, the possibility was discussed of reverting to the original German plan of a private company which should merely lease the railways, while they remained the property of the Polish State. The shares in this company, however, should be divided among German, Austro-Hungarian, and Polish shareholders.

The form in which the establishment of such a company was conceived is set forth in an instructive *exposé* drawn up as to this project by Friedrich von Bosehan.² According to this plan, the administration of the Polish railways was to be taken over by a company incorporated under Polish law and registered in Poland. Apart from the rights of ownership vested in the Polish State, the position of this company would in general be the same as that of companies which themselves owned the railways they administered; but it would be able to alienate real property only with the consent of the owner, *i.e.*, the State, and mortgages or other charges imposed upon it as security for loans would also be subject to this consent. Poland was to undertake to pay strict regard to the interests of the Company in the exercise of her rights of ownership or sovereignty, and in the event of acts directed against these interests (refusal to allow issues of shares, rejection of proposed time-tables, of increases in rates, etc.) to seek agreement with the German and Austro-Hungarian railway authorities. It was advisable also that agreement should be reached as to the eventual action of the Polish Government in a number of typical cases which could be foreseen. In other respects Poland might *a priori* be granted a free hand. In this way the number of questions likely to need special agreements in the future would be considerably lessened. Thus there was need of a whole complex of constitutive Conventions. On the one hand, there must be a treaty of the Central Powers with Poland, providing for the establishment and secure maintenance of the Company; on the other hand, Poland's Convention with the founders of the Company, which would take the form of a concession. In addition to these, it would be desirable to have agreements between the institutions financing the Company and their territorial Governments, *e.g.*, as to the establishment and maintenance of an equal status for Germany and Austria-Hungary in the general meeting and on the board of

² *Exposé with regard to the formation of a company for the exploitation of the Polish railways*, by *Sektionsrat* Dr. Friedrich von Bosehan (for the confidential use of the Ministry for Foreign Affairs).

directors, and consequently as to the non-alienation of the agreed quotas of share capital, etc.

The *exposé* does not unreservedly demand that the share capital should remain half in German, half in Austro-Hungarian hands, but indicates it as desirable that, besides the 40 per cent or so of shares held by Germany and Austria-Hungary respectively, 20 per cent should remain in Polish hands, or be sold in the open market. In a few cases, however, a qualified majority must be established; and in this case it might, if necessary, be arranged that Germany should receive a higher percentage of the shares than Austria-Hungary. Out of consideration for the sovereign rights of Poland, the shares taken over by the Central Powers must be deposited with banks, which would have to undertake not to part with them. The shareholders were to grant the right to participate in profits not only to their own Governments, but also to that of Poland. Germany and Austria-Hungary would reserve to themselves the right to levy tolls, while the Polish State would retain the rights of redemption and reversion. The right of redemption, however, was to come into force only at some later time, and the Central Powers would retain, after as before such redemption, the rights of interference secured to them by agreement with the Polish Government.

There was, at the outset, no discussion between Germany and Austria-Hungary of the details of this project. The question of the Polish railways was not discussed and brought nearer to a solution until the later negotiations on the Austro-Polish question at the end of September 1918.

CHAPTER XIV

THE POLISH CROWN DOMAINS

WITHIN the area of Russian Poland lay a number of crown domains, as they were called, which had been regarded before the War as the property of the Russian State. These domains were scattered over the whole of Poland. In the Governments occupied by German troops they were as follows: Warsaw (50,000 dessiatins), Kalisz (17,500 dessiatins), Lonza (110,500 dessiatins), Plock (23,000 dessiatins), Suwalki (204,000 dessiatins), and Siedlce (21,000 dessiatins), amounting in all to 434,000 dessiatins.¹ In the Governments occupied by the Austro-Hungarian troops were the following crown domains: Kielce (76,500 dessiatins), Lublin (24,500 dessiatins), and Radom (82,500 dessiatins), amounting in all to 183,500 dessiatins. In the Government of Petrikau (Piotrkow), which belonged partly to the German, partly to the Austro-Hungarian occupied territory, the crown domains comprised 51,000 dessiatins.

The German contention was that through the occupation the Central Powers had become the owners of the real property of the Russian State, and especially of the State domains (besides the railways), and that they were therefore free to decide whether, and under what forms, they would restore them to the Poles. This view of the matter admitted of two possibilities: either to keep the State domains, or else to give them over to the Polish State in return for concessions (*e.g.*, the taking over by Poland of part of the war-debt of the Central Powers). In reality only the latter was practically considered. In the conversation which took place on 5th February 1918 at the Imperial Chancery in Berlin express assurances were given on behalf of Germany that the domains should not become German or Austro-Hungarian property, but should serve as security for the demands of the Central Powers and, on these being conceded, should be returned. Austria-Hungary opposed this plan, too, in view of the financial situation of the Polish State, but this question was also postponed and only brought under discussion again during the negotiations in September.

¹ 1 dessiatin = 1 acre.

CHAPTER XV

THE PEACE TREATY WITH THE UKRAINE AND THE AUSTRO-POLISH SOLUTION

SUCH was the stage reached in the negotiations on the various questions connected with the Austro-Polish solution when, in February 1918, the Central Powers signed the Treaty of Peace with the Ukrainian People's Republic. This treaty, which was concluded under pressure of the most serious conditions and therefore bore certain marks of haste, was wounding to Polish national sentiment; for, under its terms, the Circle of Kholm, the right to which had long been in dispute between the Poles and the Ukrainians, was definitely assigned to the Ukraine. Not long after the signature of the Treaty of Brest-Litovsk, moreover, it began to be believed in Poland that another arrangement highly detrimental to Polish interests was about to be made by Austria-Hungary with the Ukraine, namely, the union with the Bukovina of those parts of East Galicia in which the Ruthenes were in the majority in order to set up a new Ruthene Crown Land within the Monarchy. A pledge to this effect had been given in a despatch from the Austro-Hungarian Government, which had been communicated to the Ukrainian delegates at Brest-Litovsk; and it was not till later, when it became clear that the Ukraine could not deliver the supplies of grain stipulated in the treaty, that this pledge was withdrawn.

The cession of the district of Kholm, the news of which was communicated by Count Czernin to the Polish Government through the Austro-Hungarian representative in Warsaw, raised a storm of indignation in Poland and led to a serious crisis in the negotiations on the Austro-Polish solution. The reply of the Council of Regency to the communication was so unseemly, both in form and contents, that the Austro-Hungarian delegates broke off all relations with it for several weeks.¹ Count Czernin tried to stem the rising flood of political passion in Poland by securing, on 4th March, a modification of the incriminated Article II of the treaty with the

¹ Telegram from Count Czernin to Baron Lago at Warsaw, 20th February 1918.

Ukraine. It was now arranged that the Commission for the delimitation of the frontier between Poland and the Ukraine should be empowered not to adhere strictly to the Kholm boundary as fixed by the treaty, but by moving it somewhat to the eastward make it possible for Poland to recover a portion of the Kholm district. The desired effect was not, however, attained. The storm of indignation in Poland did not subside. Indeed, the German military opponents of the Austro-Polish solution saw to it that it should not subside.

When Count Czernin recognized the necessity of making peace with the Ukraine, he was fully aware of the consequences. As early as 19th January he had confided to one of his assistants his conviction that the concessions which he had been forced to make to the Ukrainians through General von Hoffmann would quite possibly wreck the Austro-Polish solution. He saw clearly that the treaty with the Ukraine would drive the Poles into opposition to the Monarchy; he knew, too, that he was wrecking his own political career by signing it; but, in view of Austria-Hungary's bitter need, he thought it his duty to run these risks. Herr von Kühlmann, immediately after the signature of the treaty, said that, during these critical days, he had purposely refrained from trying to influence Count Czernin's decision, so that he might not have to reproach himself with having done anything to shatter Austria-Hungary's position in Poland. This was perfectly true; and in any case Herr von Kühlmann, who had always supported the Austro-Polish solution, would not have been likely to incur any such reproach. Unfortunately, German military circles did not exercise any such reserve, though it must be admitted that their action in this matter was taken at the express request of Count Czernin. Herr von Kühlmann, indeed, did not think that the Ukrainian Peace Treaty would prove an insuperable obstacle to the Austro-Polish solution; for, in his opinion, Poland was incapable of an independent existence and must ultimately depend upon some neighbor, and this neighbor would in the nature of things be Austria.

In March the prospects of the Austro-Polish solution were still unfavorable in the extreme. The irredentist tendencies in Galicia, which had hitherto been only latent, had broken out with elemental force in consequence of the conflict over the Kholm question, and the movement in favor of Poland's "full independence" made steady progress in Galicia as well as in the Kingdom of Poland. On the

German side opportunities were both sought and found of making known to the Poles that the Brest Treaty with the Ukraine was in no way to be ascribed to the intervention of Germany, but that the responsibility for it rested entirely upon Austria-Hungary. As a result of the growing obstacles to the Austro-Polish solution, a desire arose afresh on the side of Germany to achieve a solution more agreeable to herself. All these conditions, moreover, strengthened the objections of the Emperor-King Charles to the Austro-Polish solution, which became more and more outspoken.

CHAPTER XVI

THE "CANDIDATE SOLUTION" AND PREPARATIONS FOR THE CONVERSATIONS OF SEPTEMBER 1918

IN April 1918, Count Czernin resigned office, and Baron Burián, who had been his predecessor, also, succeeded him. Burián attempted once more to gain a firm footing in the Polish question, and continued to adhere to the Austro-Polish solution, in favor of which he had always been prepossessed. In the conversations which took place during May and June, partly at the German headquarters, partly in Berlin, he included the Polish question more clearly than had hitherto been the case, among those to be settled in connection with the deepening of the German-Austro-Hungarian alliance. In these conversations, no agreements were arrived at which could prejudice the Polish Question, and everything was reserved for later settlement. None the less, Burián received the impression that, owing to the opposition of the German Army Command, the prospects of the Austro-Polish solution were getting smaller and smaller. The Poles were now pressing for a speedy clearing up of the question. On 29th April M. Steczkowski, the Polish Prime Minister, had sent a request to Vienna and Berlin to resume the negotiations on the future of Poland as soon as possible, but it was not till July that they were resumed and this time on a fresh basis.

The German Government made, through their ambassador, Count Wedel, a new proposal to the Austro-Hungarian Ministry for Foreign Affairs, the gist of which was that the conditions under which the Polish State was to be constructed should first be settled between Berlin and Vienna. Among these conditions were mentioned agreements as to (1) the future economic relations of Poland to Germany and Austria-Hungary, (2) the Polish railways, (3) Poland's share in the cost of the War, and (4) frontier rectifications. All these questions having been cleared up, Poland should proceed to the election of a king, who, if she at the same time received her freedom, might be entirely of her own choice. Should, however, Poland decide to offer the crown to the Austrian Emperor or to one of the Princes of the German Confederation, an additional Convention must be added to the four already specified.

This proposition placed the negotiations on the Polish question on a new basis. They now no longer assumed that Poland was to become a buffer-State, as Germany wished, nor were they directed towards a union of Poland with Austria-Hungary, as had been the aim of Austro-Hungarian foreign policy. The first object, regardless of whether one solution or the other were adopted, was to lay down the conditions under which Poland should come into existence as an autonomous state. After that, Poland was herself to choose between the two possibilities, in connection with the election of her king. If she decided to elect the Emperor-King Charles, this would mean her adoption of the Austro-Polish solution; if she decided for the election of an independent king, her decision would be in favor of the German-Polish solution. Thus the plan for the "Candidate Solution" had come into prominence.

The new proposition, as interpreted on the Austro-Hungarian side, appeared to be acceptable to the Monarchy also. The only stumbling-block was Germany's point of view, which contemplated, in the event of the Poles deciding for the election of the Emperor-King Charles, an additional Convention by which Poland's autonomy and sovereignty were to be still further limited. This danger might possibly have decided Poland to declare herself against the Austro-Polish solution, even if it had otherwise been acceptable to her. In the meantime, the proposition might offer a fresh basis for negotiation and as such it was accepted.¹

A still further departure from the plan of the Austro-Polish solution was marked by the proposition, communicated by the German Government on 3rd August, that the two Central Powers might also agree upon the person of the future king of Poland. In this connection it was resolutely asserted that Germany had in mind a king who would actually reside at Warsaw, which would have excluded the idea of a personal union with Austria-Hungary and of the election of the Emperor Charles as king of Poland. Austria-Hungary declared herself quite ready to enter into a confidential conversation over the question of the king, but stated that she adhered to the basis for discussion laid down in Germany's proposals of July.²

¹ Communication to Prince Hohenlohe, 21st July 1918.

² Telegram to Prince Hohenlohe of 5th August 1918.

Thereupon, on 14th August, a personal meeting took place at the German headquarters at Spa between the two Emperors, and also between the heads of the German and Austro-Hungarian Foreign Offices. This led to a number of detailed agreements as to strengthening the alliance between Germany and Austria-Hungary; but no decision was arrived at on the Polish question, nor yet on the question of the king. It was merely settled that the Polish question was to be solved as soon as possible, and that in agreement with the Poles.

On 25th August it was agreed with Prince Radziwill, who had come to Vienna to take part in the conversations, that Austria-Hungary would expedite a conference between the Germans and Poles on the Polish question and further that she would endeavor to prevent pressure being brought to bear by Germany on the Poles in the question of the election of their king by any threat of injurious consequences. Austria-Hungary also declared her willingness to use her efforts at the conference, to be held jointly with Germany and Poland, in favor of Poland being joined with Austria-Hungary in a personal union, in so far as the Polish delegates advocated this course.

At the same time, on 26th August, Herr von Hintze, the German Secretary of State for Foreign Affairs, informed the Austro-Hungarian Government, in direct contradiction with this, that Germany could never consent to the Austro-Polish solution, in the sense of a union of Poland with Austria-Hungary.³ If Austria-Hungary, however, were to insist upon it, and Poland to demand it, Germany would herself be compelled to demand extensive cessions of territory from Poland. Three days later Burián replied⁴ that Austria-Hungary claimed fully equal rights with Germany in the solution of the Polish question. Should the Poles desire some solution other than the Austro-Polish, Austria-Hungary would bow to this demand, but the Poles ought not to be placed in such a position that, in the event of a decision in favor of the Austro-Polish solution, they were in dread of punishment. Poland should receive the right of free election, without unpleasant consequences

³ Telegram from Prince Hohenlohe to Count Burián, 26th August, no. 564.

⁴ Telegram from Count Burián to Prince Hohenlohe, 29th August, no. 537.

in the event of her deciding in favor of one candidate for the throne rather than another.

In view of these differences it was decided, in the course of a conversation between Count Burián and Herr von Hintze on 5th September 1918, that the wisest thing to do would be to start the discussion of the separate aspects of the Polish question by the Commission with as little delay as possible.

CHAPTER XVII

AUSTRO-HUNGARIAN INSTRUCTIONS TO THE COMMISSIONERS ON POLITICAL QUESTIONS

THE conversations between the commissioners for Germany and Austria-Hungary began in Berlin on 24th September and continued till the 28th. This was the last discussion by the two Powers on this subject, for the work of the Commission was interrupted by the unfavorable turn taken by the War. The Austro-Hungarian commissioners received minute instructions containing the last standpoint adopted by Austria as regards the Polish question. These instructions dealt with both the political and the economic questions involved.

In the political instructions it was first laid down that these conversations had not the character of negotiations, *i.e.*, they were to be limited to a mutual exchange of views. It was further laid down that the two Powers were already in agreement upon the following points:

1. Both sides aimed at solving the Polish question in a manner fully satisfactory to both the Central Powers, while keeping Polish interests in view.

2. Both Governments had adhered to the principle that the Poles must be allowed liberty in the election of their king. This freedom of election must be real and complete, *i.e.*, its attainment must not be contemplated by either side as the result of a threat of unpleasant consequences (*e.g.*, annexation of Polish territory, hampering the construction of Poland's national State, etc.).

3. Both Governments recognized the axiom that no decision must be arrived at upon the future destiny of the country without consulting the Poles, and that, as soon as a suitable basis for the solution of the Polish question had been arrived at in the conversations between Vienna and Berlin, Polish representatives must also be admitted to these negotiations.

4. Full agreement also prevailed as to this—that whatever formula for a solution might be carried into effect, the Polish State must remain within the sphere of the Austro-Hungarian-German alliance. The more detailed methods of attaching Poland politically,

militarily, and economically to the Central Powers naturally depended upon the question as to which formula for a solution was carried into effect. Hence a harmonious decision could not be reached until the two Empires had arrived at an agreement in principle as to the mode of solution.

5. Agreement also existed on the following point—that the two Powers mutually guarantee each other's Polish territories in the event of the realization of the buffer-State solution. This would not, however, be feasible if it were to be whispered to the Poles on the part of Germany that, if they would only fall in with the German solution to begin with, Galicia would drop like a ripe fruit into their mouths.

Austria-Hungary must lay down unconditionally that the integrity of Congress Poland must be respected in the case of either solution. Any other attitude could not be reconciled with the principle of free election of the king, which was also adopted on the part of Germany.

The strongest warning must be uttered against annexations of Polish territory, since they would be obstacles to peace and must be given back at the conclusion of a general peace. Austria-Hungary must insist that territorial cessions, whether to the advantage or disadvantage of Poland, could be carried out only by common agreement between the two Central Powers, as followed of itself from the common occupation of Polish territory. Moreover, as regards territorial questions, Austria-Hungary took her stand in general on the basis of the Peace of Brest-Litovsk, and was of opinion that extensions of territory going beyond the terms of this Peace would be merely of a provisional character, since it would be hard to maintain them at the conclusion of the general peace.

In the event of the Austro-Polish solution, the settlement of the relation of Poland to Austria-Hungary would be the subject of internal arrangements between the States concerned in it, in connection with which it would always be assumed as a necessary condition that Poland was in all circumstances to be included in the German-Austro-Hungarian alliance. The secret pact of the Monarchs of 8th June 1917 must of course in this case be abrogated, since its maintenance could not be reconciled with the sovereign rights of his Imperial, Royal, and Apostolic Majesty. It would, however, be better to avoid bringing up this question during the conversations,

and to postpone it to a time when the development of affairs would of its own accord set this pact aside.

In the event of the solution, advocated on the German side, of a king resident at Warsaw, Austria-Hungary insisted that this Polish king should be in possession of full sovereign rights and should not be condemned by any special rights and privileges conceded to Germany to play the part of a sovereign in appearance only. In case of this solution, Austria-Hungary must also firmly maintain that Austria-Hungary and Germany should have fully equal rights in all proceedings with regard to Poland. It followed from this, in particular, that the conclusion by Poland of a military convention with Germany alone would be unacceptable to Austria-Hungary.

The negotiations had not to deal with the question whether the Austro-Polish solution or the solution of a king resident in Warsaw (the Little Polish solution) was to be decided upon, but only with that of how the conditions for the restoration of an autonomous Poland were to be formulated. The natural aim of the conversations should be so to define these conditions that they would be as similar as possible for Poland in both cases, since in this case the possibility of a union with Galicia would of itself give the impulse towards that Austro-Polish solution which was aimed at on the part of Austria-Hungary. Every attempt must be opposed, then, to alter to the disadvantage of Austria the existing position, which, owing to natural conditions, was favorable to her, by holding out to Poland the prospect of special disadvantages (*e.g.*, extensive frontier rectifications) in the event of the Austro-Polish solution, or special advantages (*e.g.*, reunion with Lithuania) in the event of the Little Polish solution.

CHAPTER XVIII

POLITICAL OUTCOME OF THE SEPTEMBER CONVERSATIONS

THE political outcome of the commissioners' conversations conducted between 24th and 28th September was jointly drafted under eleven heads.¹ Its contents were as follows:

1. The Central Powers take their stand on the basis of the Act of 5th November 1916, by the terms of which the Polish territories torn from the Russian Empire are to be formed into a hereditary constitutional monarchy.

2. The intention exists on both sides of solving the Polish question in a way which shall take Polish interests into consideration, while giving satisfaction to both the Central Powers.

3. The occupying Powers recognize in principle the right of the Poles freely to elect their king. This free election shall be real and full and not illusory.

4. No final decision can be arrived at as to the future destiny of the country without consulting the Poles and obtaining their consent. So soon as the conversations between Vienna and Berlin show satisfactory results, the Poles are to be admitted to the further negotiations. Within the frontiers delimited by us the Poles must be able freely to decide as to the future construction of their country.

5. The Polish State must in all circumstances remain within the bounds of the German-Austro-Hungarian allied group.

6. The king of Poland must be in possession of full sovereign rights and not be condemned by prerogatives and privileges of a military and economic nature to a shadowy rôle.

7. The two occupying Powers are mutually to guarantee each other's Polish territories.

8. In virtue of the Act of 5th November 1916, Congress Poland in its entirety must fall to the Polish State. Beyond the frontiers of Congress Poland further Polish territories of the former Russian Empire can be incorporated by common agreement in the

¹ Result of the deliberations of commissioners in Berlin, 24th-28th September 1918, on the political and economic preliminaries to setting up the Polish State.

new State, in so far as this is possible in virtue of the Peace Treaty concluded with Russia, or in so far as an agreement can be arrived at in this respect with the Ukraine. The delegates of both sides on the frontier delimitation commission will be instructed so far as possible to work in favor of Poland in the solution of the Kholm question.

On the German side it was indeed recognized in principle that Congress Poland in its entirety must fall to the Polish State, but attention was called to the fact that on the basis of the agreements of August 1916, the greater part of the Government of Suwalki could not be included in the territory of the Polish State. At the same time claims were raised to those frontier rectifications which were urgently demanded by military exigencies.

9. Germany and Austria-Hungary must be placed on a footing of full equality in all relations entered into with the Polish State.

On the Austro-Hungarian side it is observed that in the event of the Austro-Polish solution a complete equality between the two Central Powers in relations to Poland is in the nature of things impossible of realization.

On the German side it is observed that an inequality of footing between the Central Powers with relation to Poland is already established with regard to military matters.

10. On the Austro-Hungarian side it is strongly emphasized that the Monarchy will not give way on the point of an agreed settlement also of the other territories which have been separated from Russia. On the German side this declaration is for the time being merely taken note of.

11. On the demand of the German delegates, the laws for the protection of German national interests issued by the German occupying authorities, in agreement with the Polish Government, are to be maintained in permanence, especially in the sphere of Church and school, and are likewise to be extended to those portions of the kingdom of Poland in which they have not been introduced.

CHAPTER XIX

INSTRUCTIONS ON ECONOMIC QUESTIONS

SPECIAL instructions were issued to the Austro-Hungarian negotiators for dealing with economic questions concerning Poland, the idea underlying which was in the main that of preventing any differential treatment of Poland, in the economic sphere too, in the event of the Austro-Polish or Little Polish solutions, respectively.

At the conference itself the economic questions were discussed only in part. Where this took place, the Austro-Hungarian instructions need only be briefly reviewed, but in cases when they did not come under discussion, the instructions must be set forth, since they contain Austria's final attitude towards these questions.

Questions of Commercial Policy.

The question of Poland's fiscal position was for personal reasons (the occupation elsewhere of the experts dealing with this matter) reserved for subsequent conversations. The sense of the Austro-Hungarian instructions on this point was that in the politico-commercial sphere the admission of different conditions in the event of the Austro-Polish or Little Polish solutions respectively could hardly be avoided.

In the event of the Austro-Polish solution two possibilities existed: either Poland might form an autonomous Customs area, giving equal treatment to German and Austro-Hungarian goods, or else it might be united with one of the two economic areas (Germany or Austria-Hungary). A union with the Austro-Hungarian economic area was not in this case a matter of practical policy, since Germany, apropos of the Austro-Polish solution, had already raised grave objections. The possibility of a union of Poland with the German economic area was also to be rejected on the part of Austria-Hungary. That Germany had the right to make this demand had never been contested by Austria-Hungary, though the latter had always pointed out the impossibility, in the event of the Austro-Polish solution and the consequent union of Galicia with Poland, of complying with Germany's demand, however justifiable, for the concession of full equality. This object, indeed, could be

attained only by the creation of an autonomous Polish Customs area, but this would either lead to a separation of Galicia from the Austro-Hungarian Customs area, and deprive Austrian industry of the important Galician market, or it would result in a Customs frontier having to be maintained which would cut straight across Poland (with the inclusion of Galicia), which would be both politically and economically most undesirable, would entail a divergent development of the different parts of Poland, and could not therefore be contemplated as a permanent arrangement. In the event of the Little Polish solution, however, an autonomous Polish Customs area, rendering possible equal treatment of Germany and Austria-Hungary, would certainly not be impossible, since in this case Galicia would remain part of the Monarchy. In this case no such arguments, arising out of special circumstances, such as Austria-Hungary had to adduce in the event of the union of Poland with Galicia, could be admitted in favor of a union of Poland with the German economic area. But there should be no departure, without urgent necessity, from the demand, justified in itself, for equal treatment in Poland of goods of German and Austro-Hungarian origin.

Thus it is hard to avoid the setting up of different conditions in the politico-commercial sphere in the event of the Austro-Polish solution, which would lead to the union of Poland with the Austro-Hungarian economic area, and in that of the Little Polish solution, by which Poland would become an autonomous Customs area. But an autonomous Polish Customs area would not altogether obviate one of the most important economic objections brought against the Austro-Polish solution (*i.e.*, that Poland must still remain a market for German industry), for even in an autonomous Polish Customs area German industry would have a stronger position in the market than that of Austria and Hungary, but it would materially weaken this objection, since in this case Polish industry itself would compete with the German.

In the course of the commissioners' conversations at the end of September, the Austro-Hungarian delegates declared that they were not competent to enter into a discussion of Poland's fiscal relations with the two Central Powers.

On the German side, it was declared that an equal footing of the two Powers in Poland must be established, whereupon Austria-Hungary made a reservation in the case of the Austro-Polish solution.

According to the German proposal Poland would have had to attach herself to the economic alliance between Germany and Austria-Hungary, in case it came into being, on the basis of agreements to be arrived at in greater detail; of this Austria-Hungary took note for the time being. It was laid down that through communication through Poland for goods and passengers (migrant workmen, etc.) was to be guaranteed to both the Central Powers, and that free zones were to be set up for them at the Polish eastern frontier. Conversely, through communication could be assured to the Poles through the territory of the Central Powers, and particularly, in the case of Germany, with Danzig and Königsberg. On behalf of Austria-Hungary, a desire was expressed for the maintenance of the free zone of Danzig, of which the German delegates took provisional note. Germany expressed grave doubts as to allowing Polish officials to function in a center of nationalist agitation;¹ it was therefore proposed that goods destined for Poland should be stored in bond at Danzig, pending their despatch, but should not be examined by Polish Customs officers at the port.²

Pending the definitive settlement of Poland's fiscal position, the conclusion of temporary commercial and tariff conventions with Poland was touched upon during the conversations. The principles laid down for these were as follows:

1. Most-favored-nation treatment.
2. Equal status with Polish subjects for German and Austro-Hungarian subjects in respect of the exercise of trade or industry, likewise in the acquisition of property of every kind, especially of plots of land and mines.
3. Equal status in navigation on all rivers, canals, and inland waters of Poland and most-favored-nation treatment.
4. Freedom of navigation on all the above-mentioned inland waters. (Under clauses 1-4 reciprocity was to be promised to Poland.)
5. Agreement upon a Vistula Navigation Act, based on the principle of free navigation for the riparian States in respect of the whole navigable portion of the river.

¹ The quarrels in the Free City, *e.g.*, in the matter of the Polish post offices, have since proved this fear to have been well founded. W. A. P.

² Distinction between a "free zone" (*Freibezirk*) and a "free port" (*Freihafen*).

6. Agreement as to the development of the Vistula and other Polish rivers suitable for navigation, likewise as to the development of the frontier streams in the interest of agriculture in general.

In the settlement of tariffs for the Polish railways and waterways, the requirements of and facilities for communication were so far as possible to be kept in sight. In this respect reciprocity was promised to Poland.

Poland's Assumption of the State Debts.

As regards the question of the assumption of a part of the German and Austro-Hungarian State debts by Poland,³ it was generally agreed at the September conversations that Poland should have to contribute towards the war debts of the Central Powers only in proportion to her taxable capacity, which was depreciated by the devastations of the War and the exigencies of reconstruction. On the other hand, it was unanimously recognized that the burden imposed on Poland or on her individual subjects (by way of taxation) for the service of the State debt ought gradually to be raised to about the same level as the average rate per head on the population of Germany and Austria-Hungary, or at least on whichever of them was less heavily taxed. If there were no such equalization of taxation, there would be a tendency to transfer property from the more highly taxed Germany and Austria-Hungary to the less highly taxed Poland.

On the Austro-Hungarian side, all was in readiness for the discussion of the exact amount of the public debt to be taken over by Poland. The German delegates, however, had no instructions on this point, and were also not provided with the necessary figures. While, therefore, it was agreed that Poland should assume part of the public debts of the Central Powers, "taking into consideration her capacity for payment, and on the basis of as complete an equalization as possible of the economic conditions of the Central Powers and of Poland," the scale on which these transferenees of debt were to be carried out by Germany and Austria-Hungary respectively was reserved for separate discussion.

Differences of opinion had arisen earlier as to whether Poland

³ Report of Ministerial Councillor von Boschan to the Minister for Foreign Affairs, 29th September 1918.

should take over part of the debt of both Powers, under the title of a Liberation Debt, or a portion of that of Austria-Hungary only, partly as compensation for the transfer of Galicia. This latter view was maintained also by Austria-Hungary at the September conferences, in the event of the Austro-Polish solution being adopted. Those taking part in these negotiations were, moreover, under the impression that Germany would possibly adopt this view; though, in that case, she would no doubt demand some equitable arrangement which should place the two Empires on a basis of equality. This might have been done by Austria-Hungary agreeing to redeem the German requisition receipts in Poland, or to indemnify Germany for her expenditure there, or to undertake the compensation for the devastated forests, and so on, or concessions might be made to Germany which would not affect Poland at all.

In the event of the Little Poland solution being adopted, Austria-Hungary reverted to the earlier German proposal by which the war-debts of the Central Powers would have been transferred, not to Poland alone, but to all the border States formed out of the Russian Empire.

Question of the State Domains and Railways.

On the question of the Polish State domains a satisfactory agreement was reached. The view of the German delegates was that the conquest of Poland had made the Central Powers the owners of the real property (domains and railways) of the former Russian State, and that it was therefore for them to decide whether, and on what conditions, they should restore them to Poland. In taking this attitude it remained clear that Germany did not wish to retain the domains, but, by representing their transfer to Poland as a voluntary gift, to secure some contingent concessions in return. Her main efforts, indeed, were directed to creating for herself a legal title, on the strength of which she would be able to get the Polish railways permanently into her own hands. It was, then, finally agreed that the State domains should be restored to Poland, and in doing so the following formula was adopted:

“Poland will have the unlimited right to dispose of the former real property of the Russian Crown and State in the Polish territories conquered by the allied armies, subject to the condition laid

down by Germany that the State railways in these territories shall be handed over to a Railway Company."

The principle of Polish ownership, which it had been the chief object of the Austro-Hungarian delegates to maintain, was thus recognized. On the other hand, Austria-Hungary adopted Germany's standpoint that the former Russian State railways in Poland were not to become the property of the Polish State, but were to be transferred to a private company. This concession had been contemplated at an earlier stage, and it was all the easier now that there was a possibility of the Little Polish solution having also to be reckoned with; for, in the event of this solution being adopted, the German project would be more advantageous to Austria-Hungary than the administration of these railways by the Polish State. Germany undertook to commend the idea of a private company to the Poles, by pointing out to them that by transferring the railways to such a company they would get rid of a part of their obligation to take over the State debts.

During this discussion it became once more clear that Germany attached the utmost importance to obtaining control of the Polish railways. Austria-Hungary had, therefore, to reckon upon having to agree to some sort of condominium of Germany in Poland even in the event of the Austro-Polish solution being adopted. Nor would Germany be content with mere paper guarantees. She demanded a direct and controlling influence over the railways, which could be secured only if they were handed over to a company in which she held the majority of the stock. To this view Austria-Hungary felt compelled to assent. She requested, however, that in the event of the Little Polish solution being adopted, the company should be organized on the basis of equality, and that, if the Austro-Polish solution were agreed upon, Austria-Hungary should have the preponderating voice in its management. To this Germany, in her turn, refused to agree, and the question of the majority representation in the company had therefore to be left open. There seemed, however, to be some hope that, if the preponderating influence of Germany were admitted, she would be willing to recognize the right of Poland to own the railways (subject to the working rights of the company) and would not insist on their transfer in fee simple to the company.

The provision that the company was also to have the right to con-

struct and work new railways was opposed by Austria-Hungary and dropped. It was also decided that, whatever the solution of the Polish question might be, the Galician State railways would remain outside the company's sphere. The resolutions were finally formulated as follows :

"A company is to be formed according to Polish law. It shall be so organized that German and Austro-Hungarian influence predominates. As regards the scale on which the two Central Powers are to share in this influence, equal status alone will be granted to Germany on the part of Austria-Hungary, and even this only in the event of the Buffer-State solution.

"On the German side, on the contrary, a preponderance of German influence in the company is desired irrespective of the mode of solution of the Polish question. In the event of this demand being conceded, Germany would agree to the recognition insisted on on the part of Austria-Hungary of the Polish State's right of ownership over the former Russian State Railways, and to transferring to the company, in return for the payment of compensation, the railways constructed at German expense during the period of occupation. Besides this, Germany would be prepared, under the above-mentioned conditions, to transfer the German railway material to the company in return for compensation, and to share the net profits of the company with the Polish State. Whether the company formed for working the railways is likewise to possess them, as is desired by Germany, shall be reserved for further discussion."

CHAPTER XX

AUSTRO-HUNGARIAN MEMORANDUM SUMMARIZING THE AUSTRO-POLISH SOLUTION

ON 1st October 1918, Baron Burián addressed a memorandum¹ to the two Prime Ministers, informing them that he intended to communicate to the Polish Government a full account of what really constituted the Austro-Polish solution. This was the more necessary as Germany intended shortly to communicate to Warsaw a written draft of the so-called German-Polish solution. The Austro-Hungarian communication which Baron Burián had decided to send, was to be drawn up on the following lines:

1. The autonomous Polish State enters by a free election of his Imperial, Royal, and Apostolic Majesty as king of Poland into an organic union with Austria-Hungary and is united with Galicia.

2. The existence of this union under the succession law prevailing in Austria-Hungary is to be laid down by extending the Pragmatic Sanction with all its provisions to Poland.

3. The internal autonomy and independence of Poland is granted within the Union.

4. Foreign affairs and everything connected with them are common to Austria-Hungary and Poland.

5. The formation of the defense force will rest upon similar principles in Austria-Hungary and Poland and be under a common Supreme Command, and the Polish army will receive such organization as shall seem calculated to secure the object of a common defense of the union.

6. Politico-commercial affairs (Customs area) shall be settled in common.

7. Austria-Hungary and Poland shall have a similar currency system.

8. Poland shall have an equal voice in all matters of common concern and in all those which have to be settled by common agreement.

9. The detailed application of these principles will be embodied

¹ Notes 4579 and 4580 of 1st October 1918.

in a Pact of Union, the elaboration of which is reserved to influential personages in Austria-Hungary and Poland. The organic provisions laid down by the Pact of Union will in due course be incorporated in the Constitutions of the two States of the Monarchy, as well as in Poland, by means of similar laws.

In the final paragraph (10) the prospect was held out of a withdrawal of the army of occupation so soon as Poland should possess an administrative system of her own.

The Austrian Prime Minister Hussarek defined his attitude towards this invitation of Count Burián's as early as 5th October. It is characteristic of the politico-economic aims of the Austrian Government that what he desired above all things was that greater stress should be laid upon the fiscal union of Poland with Austria-Hungary. "If the Austrian Government," runs the Prime Minister's note, "consents to the transfer of Galicia to Poland, she will be able to recommend this great sacrifice to the remaining population of the State only if its economic needs, as regards production as well as consumption, are protected in a more effective manner than they are against the lands under the Hungarian Crown. Hence we must attach importance to the point that even if the permanent establishment of a united Customs and economic area cannot be attained, still at least the principle of free trade and the conclusion of a fiscal and commercial alliance may be established for an unlimited period." For these reasons Herr Hussarek proposed re-drafting Clause 6 as follows:

"It would be desirable to arrive at a special agreement on economic affairs, which should settle in particular the following:

(a) "Austria and Poland conclude a permanent fiscal and commercial alliance with reciprocal guarantees of free trade. Commercial conventions are to be concluded jointly by delegates.

(b) "Poland shall assume a proportionate amount of Austria's State debt.

(c) "Detailed agreements are to be arrived at for carrying out the transfer of Galicia to Poland, by which the question of the ownership of the railways and other State property are in particular to be settled.

(d) "Matters affecting coinage, currency and an issuing bank are to be arranged between Austria and Poland in the way most

suitable and desirable for the commercial and economic relations to be created between these States.

(e) "The chief railways in the territories of both States shall be constructed, run and managed on the basis of similar principles, so far as this is demanded in the interests of military or general communications."

Under Clause 8 Herr Hussarek proposed that, besides the Pact of Union, another treaty should also be concluded between Austria and Poland concerning the transfer of Galicia and a permanent fiscal and commercial alliance.

The negotiations on these proposals were not yet closed when new events in Poland brought about a new situation. On 7th October the Council of Regency issued a proclamation to the Poles in which it announced the union of all Polish territories, the dissolution of the Council of State, the summoning of a National Diet and the formation of a Government representative of all parties. This proclamation was the result of many causes. One of these was the news that the Entente was going to recognize the Polish National Council existing in Paris as the Polish Government. The Council of Regency was also influenced by the declaration made by the Polish Club in the Vienna Parliament on 2nd October, in which all mention of a connection of Poland with Austria was dropped. Finally, the political tendencies in the country would have been dangerous to the very existence of the Council of Regency, in case it could not succeed in seizing the initiative.

From this moment, in quick succession, concession after concession was made to the Poles, which was clear enough proof that the Central Powers were no longer in a position to impose their will upon Poland. The Council of Regency presented them with one *fait accompli* after another. On 12th October, for instance, it published the form of oath to the Council of Regency which was to be taken by the Polish army; and to this and similar steps the Central Powers, for the sake of form, had to give their consent as though they approved of them. Shortly afterwards came their final collapse, and with this there died every hope of attaining any of the objects at which they had aimed in Poland.

Though the negotiations carried on during the War on the Polish question thus came to nothing, they yet form an interesting chapter

in the history of the external economic policy of the Central Powers during this period. In many points, both bad and good, they are characteristic of the tendencies followed by these Powers in shaping economic relations with foreign countries.

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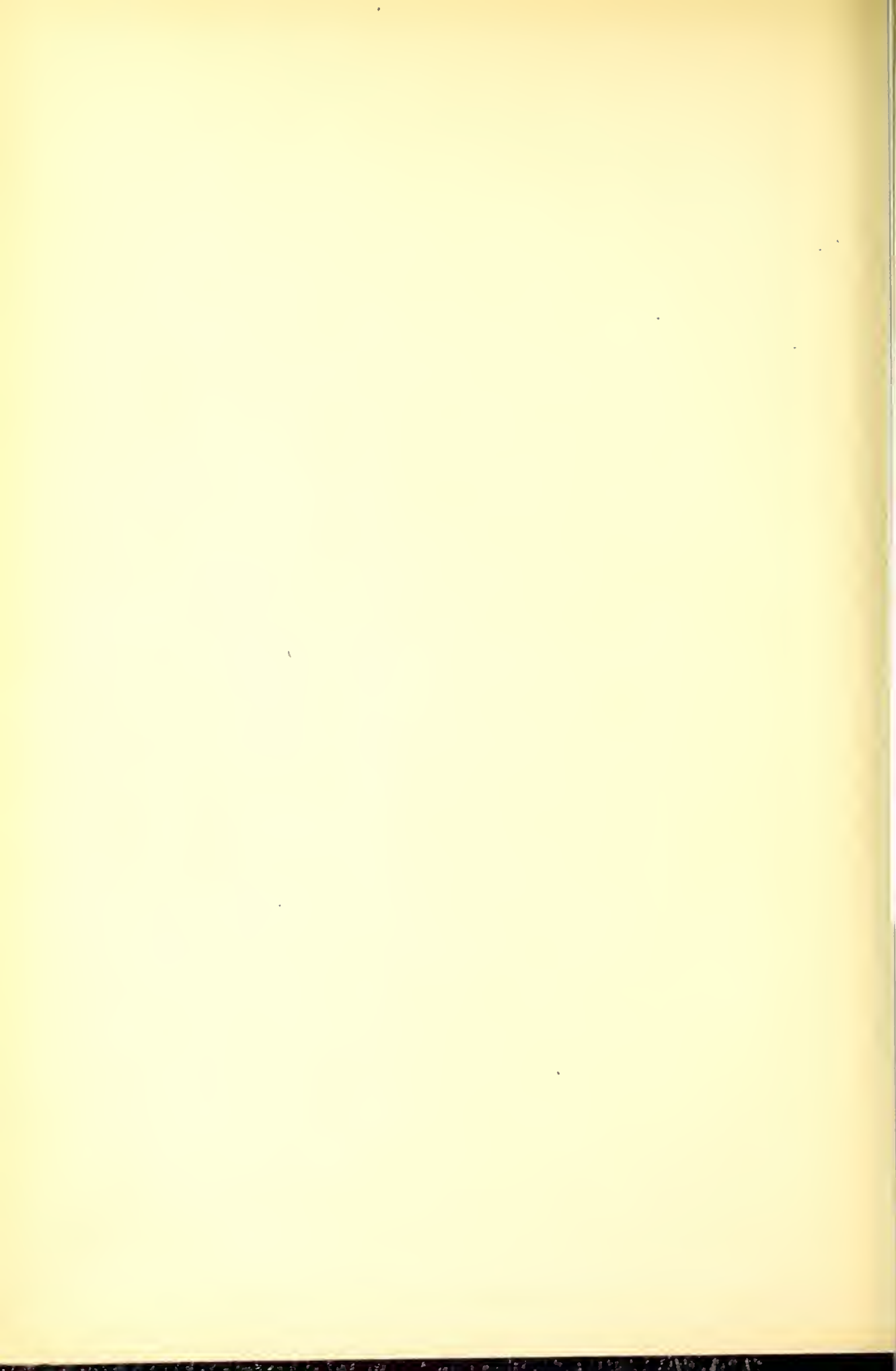
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